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February 25, 1997

DRAFT INTERIM REPORT

Canada 2005


Global Challenges and Opportunities

The Report of the ADM Sub-Committee

Volumes I and II

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Preface

Journal 2000: The ACS Policy Research Committee

This volume is the product of a four-year project begun in July 1996 by the ACS Policy Research Committee (PRC) as part of the Policy Council Officers' Canada 2000 project. Canada 2000 is focused on understanding the major challenges of the 21st century and how the wisdom and skills of the government can begin providing for the next decade.

In October 1996 the PRC produced a report on the *Canada 2000: Human Development, Social Conditions and Education* for the government of Canada. The report identified the major challenges of the 21st century and the key policy issues of public policy. The report also identified the key issues and trends driving change in Canada over the next decade. Some of these trends are highlighted in this volume. The PRC identified, among many of its, *Education, Human Resources Development, the Environment, a Knowledge-based Economy and Society, and International Competitiveness* as potential key areas of change.

The PRC's work was focused on Canada, and on a broad range of issues in Canadian policy. Volume 1 of the history of the PRC's work is that the first stage of the project was to identify the key issues and trends driving change in Canada over the next decade. This report is the first of a series of reports that will be published by the PRC. The second stage of the project was to identify the key issues and trends driving change in Canada over the next decade. This report is the first of a series of reports that will be published by the PRC. The third stage of the project was to identify the key issues and trends driving change in Canada over the next decade. This report is the first of a series of reports that will be published by the PRC.

The Sub-Committee on Global Challenges and Opportunities, working in November 1996, completed its first report to the PRC on the topic of *Global Challenges and Opportunities*. This report is the first of a series of reports that will be published by the PRC. The second stage of the project was to identify the key issues and trends driving change in Canada over the next decade. This report is the first of a series of reports that will be published by the PRC.

The PRC's first report, *Journal 2000: The ACS Policy Research Committee*, was published in July 1996. It was the first of a series of reports that will be published by the PRC. The second stage of the project was to identify the key issues and trends driving change in Canada over the next decade. This report is the first of a series of reports that will be published by the PRC.

- to identify key areas of research, development, and innovation;
- to identify key policy issues, and
- to develop a research agenda for the next decade.

VOLUME I

Preface

Canada 2005: The ADM Policy Research Committee

This volume is one element of a larger project begun in July 1996 by the ADM Policy Research Committee (PRC) as part of the Privy Council Office's Canada 2005 project. Canada 2005 is focused on understanding the major features of the policy environment over the medium term so that the government can begin planning for the next decade.

In October 1996 the PRC produced a report entitled *Growth, Human Development, Social Cohesion* which identified the major developments in Canadian society, and the key pressure points on public policy, that are likely to result from the forces and trends driving change in Canada over the next decade. Some of those forces are international in character. The PRC identified, among many others, globalization, North American integration, the emergence of a knowledge-based economy and society, and trans-national environmental pressures as key drivers of change.

The PRC's work was focused on Canada, and on anticipated pressures on Canadian policy. Yet one of the lessons of the PRC exercise was that "the lines between domestic and international issues are blurring everywhere". It was apparent to participants that government policy could not be viewed through a purely domestic lens, that Canada's future economic and social development would be heavily dependent on its capacity to deal successfully with a changing world. There was clearly a need for more detailed work on the full range of international forces affecting Canada and particularly on "the expected external pressures on Canada in 2005 that could affect Canada's interests, prospects and international strategies".

The Sub-Committee on Global Challenges and Opportunities

Accordingly, in November a Sub-Committee of the PRC was mandated to prepare a further report for Deputy Ministers "assessing the growing linkages between international developments and the domestic agenda and the implications for Canada over the next decade." This report is the product of the Sub-Committee's work.

Like the PRC itself, the ADM Sub-Committee on Global Challenges and Opportunities was asked to look at major facts and forces that have, or are likely to have, significant implications for Canada over the medium term. Specifically, the Sub-Committee was asked:

- to identify, from an international perspective, pressure points and research gaps;
- to draw out key policy implications, and
- to make recommendations on an interdepartmental research agenda and work program to address current gaps in our knowledge.

It is the close linkage with broader Canadian interests and policy choices that distinguishes the present report from a typical review of the international scene or of Canada's foreign relations.

- Our objective was not so much to describe a complex and changing world, as it was to identify the features of this new world that are likely to have the greatest impact on Canada and Canadians over the next ten years or so.
- Our task was not to try to predict what will happen in 2005 but rather to understand what is important about what's happening in the world today, and what it means for where we are headed.
- Our interest is not Canadian foreign policy, but Canadian policy writ large – economic, social, cultural and even the unfolding dynamics of national unity. In the broadest sense, we are concerned with what a changing world means for the issues and challenges Canadians will have to address in the future.

Our analysis points to an agenda for research that is outlined in Section V of the Overview and set out in detail in the Annex to Volume II. But it also has implications for policy-making in government, both today and over the coming years.

Horizontal Work

One implication is that traditional departmental mandates are no longer adequate as a taxonomy for organizing policy work in government. The traditional dichotomy between "economic" and "social" policy has less and less relevance to Canadians or to the governments that serve them. The issues that shape this report – globalization, economic integration, learning, competitiveness, the information revolution – transcend the boundaries between departments, just as they force us to re-think the meaning of boundaries between states. The growing polarization between rich and poor, gender and minority issues and other cross-cutting factors are also explicitly linked to the global challenges and opportunities identified in this report, and as such must be a visible part of the policy research agenda being developed.

If the Government of Canada is to deal effectively with these new issues, then officials will have to learn how to work together in new ways, not only in developing programs but literally in understanding the new problems.

This calls for research work of a different sort, both inside and outside government; it also will require new cross-departmental mechanisms for developing sound policy on the basis of that research. The Sub-Committee strongly endorses, therefore, the recent work on horizontal policy development done by the Deputy Ministers' Task Force. Only if officials can learn how to work together in new ways, while respecting the particular responsibilities of their Ministers, will Canadians get the quality of public policy they need in 2005.

Structure of this Report

This report is divided into three sections:

Volume I, the Overview: this sets out the international themes and forces that we believe are affecting Canada today, and that will continue to shape the major policy choices facing Canadians over the medium term. We are aiming not at a complete catalogue of issues and pressures, but rather at identifying the dozen or so critical "pressure points" that will concern governments and indeed individual Canadians. Our findings and recommendations in this Volume are drawn from fourteen research papers prepared by participating departments and gathered together in Volume II.

Building on the themes and issues outlined in the first four Sections of the Overview, Section V sets out what we see as the most significant new areas for research on international/domestic linkages that are important to Canada. Not all this research work should (or can) be done by government. But government needs to encourage and support high-quality research wherever it is appropriate to do so. Just as important, by setting out a "research agenda" in this form, we are also trying to create a set of yardsticks to inform policy development over the medium term. Recommendations for a research work plan are set out in Section VI and a full list of research proposals is contained in the Annex to Volume II.

Volume II, the Discussion Papers: these short research papers are focused on the major themes and issues in the international environment that underlie the analysis and prescriptions in the Overview. Not surprisingly, many of these issues were identified in the PRC report. Our purpose here is not to duplicate the PRC's work, but rather to draw on it and, where necessary, to dig deeper in the international dimension in order to inform our recommendations in the Overview.

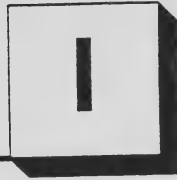
Volume III, the Departmental Issue Papers: these are three-page papers prepared by individual departments. They are focused on the specific issues at play within the respective mandates of the departments and agencies that participated in this project. In effect, these papers are the raw material from which the discussion papers and, subsequently, our conclusions and recommendations were derived.

As co-chairs, we wish to thank all those who participated in the discussions of the Sub-Committee, the many officials from participating departments who contributed to the discussion papers and the issue papers and, of course, members of the secretariat, for their valued contributions to this element of the Canada 2005 project.

Len Edwards

David Oulton

Part



Overview

Overview

I. Introduction

The Sub-Committee on Global Challenges and Opportunities has concluded that *globalization* and the *emergence of multiple centres of power* (including, notably, the emergence of Asia as a new "centre of gravity" in the world) are the most significant international forces affecting Canadian interests over the medium term. These forces will define the major international issues to which our national policies and actions will have to respond between now and 2005.

Five Issues

In this context, the Sub-Committee has identified five major issues as critical to our national interests over the medium term:

- 1) the challenge of international competitiveness in a global knowledge-based economy, including increasing polarization between "winners" and "losers"
- 2) the implications of continuing economic integration with the U.S. , particularly implications for national identity and unity
- 3) the challenge of responding to a new security environment, in which threats are more diverse, if no less real
- 4) the increasing vulnerability of Canadians to global changes caused by the inter-connection of population growth, environmental degradation, disease and uncontrolled migration
- 5) the erosion of government power and authority resulting from the forces of globalization

Our presentation of these issues, and our analysis of their implications for Canadian policy research, forms the substance of this first Volume of our Report. A more detailed analysis of issues and trends can be found in the papers in Volumes II and III.

Structure of this Overview

We begin by explaining *why* the enormous changes in the world matter to Canada. We show what it is that makes the world today relevant to the decisions that Canadians will have to make over the next ten years or so.

Second, we describe *how* the world is changing. We explain the significance of the two key factors noted above -- globalization and the emergence of multiple centres of power.

Third, we set out what we see as the most important *implications* of these new features of the international environment for Canada. We try to answer two key questions: "*is the world becoming a better or worse place for Canada*", and "*are we becoming more or less influential in the world?*"

Against the backdrop of globalization and the dispersion of power, we explore the five major issues listed above. Some point to new opportunities that will need to be pursued in new ways; others will challenge our well-being in economic, social, cultural or security terms. How much do we know about these issues, and what do we need to know if we are to respond adequately in the future? In all cases, there is a need for further research.

We also identify ten **key pressure points** where these new international forces intersect vital Canadian interests, values or other dynamics in our society and economy in ways that eventually will call for new policy responses. These points of intersection represent critical emerging items for policy attention by the government. They have implications not just for *what* policy work is done, but for *how* it is done.

A "pressure point" can be a conjuncture of opportunity as well as one of risk.

The major output of our analysis is a **proposed agenda for further research and a work plan** that is summarized in Sections V and VI of this Overview. We offer suggestions on research priorities, horizontal mechanisms and linkages to current work. This research agenda should also influence the work of our intelligence community, a valuable (if sometimes under-valued) asset in the national project of preparing Canada for this new world.

Three Premises

Three premises underlie the analysis and recommendations in this Report.

1. "Today, all issues are international".

The traditional distinction between "international" and "domestic" issues is increasingly fuzzy and, for purposes of research and policy-making, almost irrelevant. Today, all important "domestic" issues have an international dimension. All are shaped by international forces and events. None can be successfully addressed by governments in isolation from the international sphere. By the same token, domestic actions have international ramifications which governments, both federal and provincial, must consider in making policy decisions. And more than ever, foreign policy must reflect and balance domestic interests and objectives.

2. "The information revolution is unstoppable".

The information revolution will continue at an ever-accelerating pace. The rise of the global information economy (and community – the "wired world") is unstoppable, at least over the medium term. As the cost of transmitting information approaches zero, a qualitative change is coming over both the workplace and the home, with broad implications for how our economy and society are organized.

We must also recognize, however, that globalization in the purely *economic* sense of an ever-more liberal trading environment is something that may or may not continue. Nor does the relentless pace of the information revolution imply the triumph of liberal political or social values around the globe.

3. *"Although we cannot predict events, we can understand forces and trends."*

Experience has shown that it is often the unexpected, and unpredictable, event that can have the greatest impact on the world. The end of the Soviet Union, the emergence of a market-based economy in China, the peaceful transition to democracy in South Africa – these are major events with enormous consequences that few experts foresaw. Similar events will colour the years between now and 2005 in ways that are just as unexpected. That is a certainty.

But though we cannot predict events, we can usefully invest our efforts in understanding the forces that determine them and the *kinds* of events we may have to confront. That is really the goal of policy research – to gather information, and to identify and analyze trends and emerging issues, that will inform policy-making and enhance the policy debate.

Good policy depends on recognizing the elements of today's landscape that will define tomorrow's ... and being prepared for the unexpected.

Some trends are fundamental, others more transitory.

If we fail to distinguish what is inevitable (e.g., the information revolution) from what is not (e.g., a new agreement on trade in services) we will be forced to deal with new problems in terms of old conceptual categories, failing to recognize or exploit new tools for doing research, making policy and building consensus around it. Again, this is a challenge to policy research -- sorting out what will really be important to us over the medium term from what is an issue only today.

II. Why Does the World Matter to Canada?

Most Canadians understand that the world outside is important to their interests and those of Canada. Indeed, in many respects it has long been a central fact of their daily lives.

Proximity to the U.S.

Canada's history has been shaped by the continuing challenge of maintaining political independence and cultural identity despite our close relationship with the most powerful nation in the world. The U.S. is the only country in the world today that combines enormous political and military power. America still acts as a beacon and magnet for the best and brightest from other countries, including Canada. Our unique engagement in the U.S. economy is the source of our prosperity, and also a challenge to our independence.

The Canada-U.S. trade relationship is the most significant trade partnership in the world, amounting to more than \$1 billion per day.

Demography

The makeup of the Canadian population has changed dramatically since WWII, and will continue to change: 16% of Canadian residents are foreign-born; in Ontario and B.C., the figure is 23%. Current patterns of immigration are further changing the population mix, especially in urban centres. Given falling birth rates, immigration represents the sole source of population growth for Canada over the foreseeable future. This presents new challenges in terms of education, social cohesion, and indeed Canadian identity: 50% of new immigrants have grade 12 or less, and many face huge adjustment problems. At the same time, our multicultural population offers tremendous competitive advantages to Canada in an increasingly globalized economy.

An Open, Export-Driven Economy

Canada's economy has always been dependent on exports, but never more so than today:

- nearly 40% of our GDP is generated by exports, close to 80% of which go to the U.S.
- more than 25% of our federal debt is held by foreigners, who also contribute over \$10B per year as direct investment in Canadian business
- manufacturing, resource management, safety, health, labour and environmental standards increasingly are determined internationally through bilateral and multilateral agreements in a host of areas of provincial as well as federal jurisdiction

Canadian exports grew by 42% from 1993 to 1995. Of the G7 countries, we are by far the most dependent on trade. Of the G7 countries, we are the only one to import more than 50% of the technology we use.

- and Canada's economic and fiscal policy, like that of every other country today, is constrained by the operation of global financial markets.

Fostering Stability and Growth

Canada has promoted peace and security, by a variety of means, in virtually every corner of the globe. This is not simply an expression of our values as a country -- Canadian society itself thrives in a stable, rules-based international system in which we protect our interests by working with others to mitigate the unilateral actions of big powers. Our international vocation has been manifest in:

- participation in two World Wars, the Korean War and dozens of UN missions since 1945
- an active role in the G7, the UN, NATO, the Commonwealth, La Francophonie and other international organizations
- a significant program of development assistance which helps to address root causes of insecurity in the developing world, thereby enhancing the security of the global community
- traditional, and continuing, openness to immigrants and refugees.
- recognition as a leader in the pursuit of equity at the international level, and particularly in promoting gender equality.

English-speaking Canadians are proportionately the largest consumers of foreign cultural products in the world, largely American.

This high degree of international engagement has given us a very positive profile in the world, and even a degree of moral authority, an important source of influence. Expectations of what Canada can contribute to the world are equally high, both at home and abroad.

Culture and Identity

Canadian cultural expression arises from the complex interplay of Canada's peoples and communities, set against the backdrop of our vast geography and a rich historical legacy. But the predominant – and increasing – cultural influence, both in Canada and throughout the world, is the American-based media and entertainment industry. Throughout our history, the presence and influence of our southern neighbour has presented a unique challenge to Canadians and their governments. They have responded by ensuring that Canadians have access to the best cultural products from around the world, and by seeing to it that Canadian stories, and Canadian perspectives, are among the choices offered.

The new information technologies offer new opportunities to project Canadian culture and values to larger audiences and markets. Yet the same technologies also render many traditional mechanisms for promoting a distinctive Canadian cultural space less effective. In the future, the challenge will be to take advantage of new opportunities for projecting our culture, while

respecting consumer preferences, and ensuring that Canadians continue to have access to unique Canadian cultural expression.

Interests and Values

Just like other countries, ours has been a foreign policy of "interests" – chief among them the security, prosperity and well-being of Canadians. But our national interests, in the broadest sense, have often best been served through the pursuit of a foreign policy in which our democratic values were visible and were given practical expression in everything from peacekeeping to development assistance.

Our fundamental interests have not changed, nor have our national values -- our commitment to democracy, human rights, justice and respect for diversity. Today, the issue for the government is how to promote our traditional values in this new, competitive environment, and how to pursue Canadian interests in a world in which the rules, the players and pace of the game have changed dramatically.

Canada has long been acclaimed for championing the belief in a better world, beyond the confines of narrow national interest.

Canada's Role in the World

Since WWII, Canada has been singularly successful in building alliances internationally – not simply to protect its interests but to pursue specific goals in the company of like-minded partners. Multilateralism has been good to us: it has magnified our influence and our reach across the globe. The health of the international system is central to Canada's diplomacy.

This new international environment, in which decision-making has been dispersed to new and often distant actors, challenges Canada's traditional role in the world. It also challenges our capacity to act with a single "national" voice in the world. Indeed, the very issue of what "Canada" believes or wants is complicated by the regional, cultural and linguistic diversity of our country, and the growing polarization between rich and poor in our society.

The world looks to Canada, and Canadians, for leadership in multilateral institutions and on a host of issues where the interests of the global community are at stake..

For forty years after the end of WWII, Canada's role in the world was clear:

- to be a good neighbour to the Americans
- to be a good ally to our partners in NATO
- to be a good contributor to multilateral organizations where peace, security and social justice were shared objectives, and
- to help developing countries improve their quality of life.

If modesty is our national virtue, it too often leads us to downplay our influence and to fail to appreciate our capacity for leadership. Notwithstanding our position relative to the U.S. or the EU, or a fast-growing China, Canada has an

international standing and personality that most countries would envy. They look to Canada, and they look to individual Canadians, for leadership on issues and in international organizations. They will continue to look to us over the medium term as a country that respects international law and contributes positively to international institutions; as a country without a colonial past that is prepared to make substantial investments in the economic and social development of the Third World; as a country that is prepared to act to preserve peace (as in Bosnia) and to prevent human suffering (as in Rwanda). Our international standing is one of our most precious assets. It serves the totality of our interests.

Thus, in concentrating its efforts on what the world means for Canada, the Subcommittee has not lost sight of Canada's role *in* the world. That role will remain visible, substantial and, most importantly, essential to the protection of our national interests and the pursuit of our national objectives:

- it will include diplomacy, conducted in new ways using new technologies;
- it will of course include a strong trade and economic dimension, pursued with new partners, using new instruments of influence;
- it will continue to have a significant security component; and
- it will include a commitment to Canadian values, notably international development, because this is one of the most effective investments in reducing the polarization between rich and poor, thereby contributing to a safer world.

The issue of values is critical for us because it is in value terms that many Canadians see their country's role in the world. It is the fact that we stand for something larger than our just own interests that, for many Canadians, motivates and justifies our international activities - not just peacekeeping, though that is of course one of the most visible expressions of our values. But also development assistance and a commitment to build and sustain international institutions that serve the interests of the global community.

We do not yet know enough about the impact of the new forces on our interests, or about how best to pursue our objectives and our values in this new environment. We need to do research that anticipates the issues that will matter to us over the medium term, and then to bring the fruits of that research to bear on policy.

III. How is the World Changing?

The last ten years have witnessed a fundamental re-ordering of the world, in both economic and political terms. We have seen the emergence of new actors on the international stage, and a host of new problems that engage the interests of the international community in ever more compelling ways.

In this dramatically-changing international environment, two questions arise:

- 1) *Is the world becoming a better or worse place for Canada?*
- 2) *Are we becoming more or less influential in the world?*

There is no simple answer to the first question – the new, globalized, multi-power world is both better and worse: it presents both opportunities and challenges for Canada.

As for the second question, we conclude that the individual influence of all states is declining, Canada included.

A Better World for Canada ?

By some measures, the world is obviously a better place, and a better place for Canada:

- the democratic values that we share with our allies and friends are clearly in ascendance around the world – witness the fall of the Soviet empire, and the transition to democratic governments in South America, South Africa and most of Eastern Europe;
- the market-based economic system is being adopted the world over; in a practical sense, there is no alternative model. Many formerly “developing” countries have made dramatic strides forward in terms of economic growth – e.g., China, Korea, the ASEAN countries, Taiwan;
- economic integration with the U.S. under the FTA and NAFTA has paid tremendous dividends in terms of export growth. Today, exports to the U.S. account for a full 30% of our GDP;
- the Cold War is over; the military threat to Europe has dramatically declined; there is less risk of global war between nuclear superpowers;
- Canadian values are resonating internationally on issues such as human rights, child labour, the education of the girl child in the developing world, peacebuilding and human security;
- standards of living in all developed, and many developing countries have risen in absolute terms, even if some countries (including Canada) may have fallen in relative terms;
- we continue to see scientific breakthroughs across the gamut of scientific disciplines, many with commercial applications; and
- the information revolution has created a “world community” in which billions of people have unprecedented access to information and associated cultural products.

All of these are positive developments. Yet at the same time, problems of over-population, uncontrolled migration, environmental degradation, disease and ethnic conflict are threatening to overwhelm not only the developing world, but the planet itself.

- over the next ten years, the world's population is expected to grow by some 800 million people – equivalent to the population of Africa. Even today, some 800 million people suffer from food insecurity, and demand for food will double over the next thirty years;
- by the year 2025, 40% of the world's population will be living in countries experiencing chronic water shortages or water stress;
- over the past 25 years, the number of refugees has increased nine-fold to a current total of 23 million; there is a huge challenge of rebuilding economies and societies shattered by civil war and regional conflict;
- we are witnessing the emergence of "failed states" such as Somalia and rogue states such as Iraq that pose new threats to their neighbours and to their own people;
- international institutions that have served the world community over some fifty years are under increasing stress, due to both budget cuts and the many new tasks they are expected to take on. Yet with the possible exception of the World Trade Organization, progress on institutional reform has been slow and the credibility of many organizations is declining;
- though democracy has made gains, the values that underpin the formal structures of democratic government have often not been absorbed, and in some cases may never be.

Modernization does not necessarily mean "westernization" – the spread of the market economy is not the same thing as the spread of western values

Acknowledging the Risks

The risks that lie ahead, even over the next ten years cannot be denied. The "good news" of the past decade, in terms of the spread of democracy and the expansion of the world trading system, could hardly have been predicted. Yet it would be dangerous to project these positive developments on a straight line into the medium term. There is much that could go wrong, even disastrously wrong, whether in terms of conflict, societies failing the transition to democracy, environmental degradation or even in the world economy. Indeed, we must accept that some bad outcomes are inevitable. Environmental degradation - the loss of forests and farmland, and the pollution of the oceans - will continue despite the best efforts of countries like Canada to turn the tide in the other direction. Industrialization in China and India will increase CO2 levels in the atmosphere; nothing we can say or do over the next decade can prevent that. And population growth in Africa as well as Asia will place extraordinary pressures on local environments and food supplies. In these circumstances, it

is only prudent for Canada to plan for responding and adapting to these downside risks.

Making the Most of the New Opportunities

The lesson of all this is that, as ever, governments must do their best to mitigate the risks and make the most of the opportunities. For Canada, this means, in particular, sharing the benefits of our participation in the global economy, enhancing the distinctive identity of Canadians, and contributing to stability and development around the world.

What is important is not whether Canada's *overall* influence is in decline (e.g., in Europe) but whether it is in decline in the areas, or on the issues, that matter most to us.

We should bear in mind that, over the next decade, the economic opportunities for Canada are enormous:

- our access to the American market, the world's most innovative and dynamic, has been assured through NAFTA; there will be another multilateral round by the year 2000. While Canada's export growth may slow, the potential for new foreign investment continues to grow.
- our communications and high-technology sectors are growing, as is the application of technology in our traditionally-strong resource sectors. We have become a major investor in resource development, notably in the mining sector, around the world.
- despite domestic criticism and funding pressures, our education sector is world-class; we are well-positioned to compete for students, faculty and jobs for graduates. Indeed, as we discuss below, the very quality of our graduates poses a new challenge in the North American context.

One thing is clear: to tackle the problems and to make the most of these opportunities, we have to be prepared to work with others. We must work with other governments in Canada and abroad; with NGOs and the private sector; with the academic and research communities. In a globalized setting, it is multilateral activity, not unilateral action, that produces results.

In four of the past five years, Canada has ranked number one on the UNDP's "Human Development Index".

Is Canada's Influence Declining?

To the second question – *is Canada becoming more or less influential in the world* -- there can be only one answer. As other countries become stronger in economic and military terms, we become comparatively less important, at least by most traditional measures of influence. *But this is the case for every country in the world, including (except in purely military terms) the U.S.*

- When Canada joined the G7 in 1976, we were the world's seventh largest economy; today we are tied for 8th and by the year 2005, we must expect to rank considerably lower, given the projected growth rates of our competitors in Asia and elsewhere.
- In 1945 Canada was the world's fourth military power, today we are not even on the scale.
- For the first time ever, our development assistance budget has begun to decline in absolute terms. In any event, private capital flows to the developing world now dwarf ODA from all western countries combined.

The real challenge for Canada is not to bemoan inevitable changes in our relative position in the world, but to make the best use of the tools we have – and they are considerable – to maximize our influence to positive ends.

While being honest about the challenges and the risks, we should also recognize that this new world brings with it new instruments, and new possibilities, of influence. On this scale Canada's potential influence may actually be increasing. For example, would anyone have said twenty years ago that Canada would be known the world over for an ever-larger group of writers and performing artists? Yet that is clearly the case today, whether one thinks of Alice Munro, Oscar Peterson, Michael Ondaatje or the Montreal Symphony Orchestra. The possibilities of continued growth in terms of our cultural and intellectual influence are unlimited.

So too are the possibilities of influence through the judicious use of our standing and influence, the careful choice of the issues that we wish to pursue multilaterally, and of the ways in which we will pursue them. One need only look to the example of our ally Norway – a country of four million people that nevertheless has played a major role in facilitating peace in the Middle East and in Central America.

In the information age, size is no barrier to influence. If we know what we want, what our strengths are and how to apply them, we can advance both our own interests and those of the world community.

Two Key Factors

To understand the international trends that are of greatest significance to Canada, and the pressures they are placing on Canadian policy, we must place them in the context of the two forces that, above all, have helped to redefine the world since roughly the mid-1980s – globalization and the emergence of multiple centres of economic and military power. These two forces – each a complex phenomenon in itself – are discussed below.

Key Factor #1. Globalization

"Globalization" is a term with a wide range of meanings.

- It is often used to refer to the emergence of world-wide markets for technology, investment, production, distribution, and consumption,

including global capital markets and the formidable power of Multi-national Enterprises (MNEs).

- It can also refer to the global spread of value system – both western and non-western. This includes everything from electoral democracy, market-oriented economic systems and more open, liberal social and cultural systems, to phenomena such as the spread of Islamic fundamentalism.
- Sometimes it refers to the emergence of a global information economy in which information and related technologies and products are the major inputs and outputs, or to the information revolution itself and the emergence of a (US-dominated) “world culture”.
- In still another sense, globalization began in the 1970s, with the realization that environmental pressures were essentially global (or at least trans-national) in character, and that addressing them would require new forms of international co-operation. Here globalization means “global change”.

Globalization in the broadest sense is an irreversible trend with profound implications for the future of the Canadian economy, the Canadian labour market, Canadian culture, and, indeed, the unity of Canada itself.

To talk of globalization as a defining feature of the new international environment is not simply to extrapolate current trends in the international economy. Continued *economic* integration on a global scale depends on many factors, not least the continued belief in North America, Europe and Japan that national interests are best served through increasing liberalization of world trade. That consensus may change. What will *not* change is the growth of the information economy, the trend toward electronic commerce, the digitization of cultural products, the “death of distance” and the demand for people with the skills to succeed in the new knowledge-based economy.

Consequences for Governments

Globalization has many consequences for governments, most importantly that it erodes both national boundaries and the power of national governments. It disperses the power of states upward to multilateral institutions, downward to subordinate governments, and outward to non-state actors, both corporations and non-governmental organizations.

The stresses today on traditional institutions in almost every country reflect the difficulty of adapting to pressures outside the control of governments, and of satisfying a public audience that, in the information age, has been conditioned to expect instant solutions to complex problems. For example, many Canadians still expect governments to “create” jobs, whereas economic liberalization implies that it is the private sector that drives growth and job creation.

Integration at a global level makes it easier for regional forces to flourish within nation states – whether one thinks of Bavaria, Catalonia or Quebec.

Consequences for Individuals

The social and even personal impacts of globalization are no less profound than its effects on the production and consumption of goods or services. When we speak of "competitiveness", we think too easily of the high-technology winners, and too easily overlook those Canadians whose entry into the new economy is hampered by lack of education or access to the new jobs. It would be a mistake, therefore, to think of globalization and related issues in purely positive terms, ignoring their downsides and the corresponding challenges to public policy.

Globalization is not a faceless force with abstract consequences. It affects people as well as states. It creates opportunities for some, just as it kills the jobs of others – and it generates uncertainty for all. In economic and social terms, we have created a global "ecology" in which events in one part of the global system are felt everywhere. Globalization matters precisely because it affects all of us in one way or another.

Key Factor #2. Multiple Centres of Power

The second critical factor defining the new international environment is the emergence of multiple centres of power, and particularly the emergence of Asia as a third pillar of the world economy and a region that is playing a significant and distinctive role in the councils of the world. The rise of Asia exemplifies the new reality of the millennium – in terms of economic power, a new security balance, the global environmental equation and even the "values" that underlie the workings of multilateral institutions. Asia is not the OECD club – history, values and intra-regional relationships are profoundly different from those in the traditional forums of the developed world. This is a new reality to which we Canadians, like others, will have to adapt and respond..

This shift to a multi-power world is not simply a matter of the end of the Cold War, and the apparently accompanying triumph of democracy and capitalism. The diffusion of power today is as much an economic as it is a military or political phenomenon. It is manifest in the rise of new regional blocs and new regional powers, including the North American Free Trade partners, an integrating Europe, as well as the Asian powers – Japan, an emerging China, India, and the "tiger" economies. With the accompanying forces of globalization, this dispersion of power in the world brings new constraints on the capacity of every state to pursue its national objectives in the international environment.

Even the Americans, arguably the greatest beneficiaries of a new world in which they find themselves the only "full-service" superpower, seem unprepared for the new reality of a multi-power world and as yet unable to define clearly a new, constructive role for themselves. The dispersion of power is not unconnected with the forces of globalization.

- The fall of the Berlin Wall reflected, in part, the impossibility of keeping ideas and information out of any society, no matter how authoritarian its government.

- The arrival of China as a budding economic superpower reflects that government's recognition that full participation in the world economy was both inevitable and advantageous. It also demonstrates the capacity of Chinese entrepreneurs to use new technologies to enter the global economy.
- The growth of a regional economic power such as Singapore, despite its tiny size and complete lack of natural resources, shows what can be done when strong political leadership combines with social discipline and determination to succeed in a globalized, information economy.

Key Players in 2005

In thinking about Canada on 2005, it is useful to consider which countries and regions are expected to be of most importance to our trade, security and broader developmental interests over the medium term. Even allowing for the fallibility of prediction, some things appear relatively sure.

Regionalism is an increasingly important factor in the world trading system. What we don't yet know is whether it will be positive (in the sense of promoting greater openness and integration), or negative (i.e., a shift toward isolated trading blocs)

The U.S.

The U.S. will continue to lead the world economy through technological innovation, the diffusion of information and entertainment and its continuing status as the world's largest national market. For Canada, some key issues will be:

- can we retain our share of the U.S. market, and our share of U.S. outward investment?
- will the forces of U.S. protectionism strengthen or diminish over the medium term?
- what will we do about the issue of culture in the face of U.S. pressure within the NAFTA/WTO context?
- what will be the impact on our interests of the expansion of NAFTA and the arrival of new partners?
- will the U.S. be more or less inclined than it is today toward multilateral co-operation on international security issues?

Asia

We noted above the global impact of Asia's emergence onto the world stage. Below we offer a few observations on the prospects for particular countries in 2005

Despite its current difficulties, Japan will continue to be important in a global sense. Because investment opportunities in Asia and elsewhere are more attractive, a key issue for Canada will be to ensure that we get our share of Japanese investment aimed at serving the integrated North American market.

China is a huge market, but there is a question as to what role it will play in the region and in the global trading system. In other parts of Asia, there are two issues that are specially relevant to Canada: one is whether recent high rates of economic growth can be maintained over the medium term; the other is whether these countries can cope with the negative consequences of rapid growth – urban sprawl, pollution, deforestation and social disintegration. These economies are rapidly-growing, key markets, where intra-regional trade and tough competition are even now reducing our market share. They are potential competitors for Canada in both natural resources and the high-technology economy of the next century.

The European Union

The EU will experience continued growth and expanding influence in both trade and trade policy. The EU is a huge market, getting bigger all the time with the gradual addition of new members in eastern Europe. European monetary integration will mean a three-currency world – the dollar, the Yen and the ECU. The implications of this have yet to be understood. Another key question for Canada is what we can do about our already-declining place in the European market, and our diminishing influence on political and security issues in Europe.

Latin America

This will increasingly be recognized as a key market for Canada, and a region where Canadian investment can reap significant returns, provided the current trend to democracy and economic liberalization continues. Countries such as Brazil will be much more important, both as markets and as partners in the hemispheric context.

Russia

Although no longer a super power, Russia will become increasingly important for Canada from the perspective of environmental protection and as a competitor in the area of natural resources. It has the potential to become a “spoiler” on a wide range of issues, including nuclear proliferation. It *may* become more important as a market, though internal disorders could undermine economic progress and present other, larger security concerns to the western world.

A General Comment

A multi-power world makes diplomacy both more difficult and more important. It makes partnerships, with new partners, an even more vital tool in the pursuit of our national interests. While it makes the future more uncertain, it also offers great potential for trade and for the diffusion of values that are central to our sense of being Canadian.

IV. What are the Implications for Canada?

Based on our analysis of the forces driving change in the world, we must now ask what they mean for Canada. What are the points of intersection between these international forces and the realities, interests and objectives that are distinctively Canadian? How will these pressure points affect us in the medium term? What do Canadians, and their government, need to *know* and to *do*, to meet these challenges and take up these opportunities.

To begin to answer these questions, we have identified five major issues that we see as critical to Canada's circumstances and interests over the next decade. Some are manifestations of the integrating forces of globalization; others reflect the more unstable and unpredictable environment of the post-Cold War. Together, these issues provide a framework within which our research agenda can be set.

Talk of the risks and uncertainties in the international environment can paint too negative a picture of the prospects for our country. In fact, Canada is well-positioned to take advantage of its place in an integrated North American market, to show leadership in international institutions, to play a key role as a global investor and to project its distinctive identity into a digital environment. The issues set out below present opportunities as well as challenges for Canadians.

MAJOR ISSUE #1. The challenge of international competitiveness in a global knowledge-based economy.

New Sources of Competitive Advantage

A more open and competitive international environment means, of course, more competitors for Canada, often in sectors where traditionally we have been strong. In this new economy, we are forced to reassess our strengths, and to adjust in sectors where we can no longer compete.

Canada's resource industries - agriculture, mining, forestry, energy - will continue to be a vital source of our economic strength over the medium term. While these industries are entering the new economy at a rapid pace, Canada must expand its capacity to compete in other facets of the new economy.

In important ways, the basis for competitive advantage in the knowledge-based economy has changed. It requires *human* capital as well as financial capital; it requires investment in innovation as well as in physical equipment. In the new economy, what some have called "social capital" - the quality of education, health care, culture and social cohesion, values and attitudes, the natural environment, the efficiency of government and the effectiveness of social systems in a country - is increasingly regarded as a key source of competitive advantage. What this means is that to an increasing degree in the future, competition will be take place between *societies* and not just between individual enterprises or even whole economies.

Thus if Canadians are to compete successfully in this new environment, we need to know more about the human dimensions of a competitive economy and a healthy society, including the increasing challenge of attracting and retaining the skilled workers who will be essential to our international competitiveness. This is a critical research challenge for the medium term.

Investment

We also need concerted work on what is required for Canada to continue as an attractive destination for the capital investment required to sustain an internationally-competitive economy. And we must identify the factors which inhibit the formation of capital by Canadian companies investing either at home or abroad.

Competition for investment will become fierce as Japan withdraws capital from North America and other, more rapidly growing economies offer investors the prospect of higher returns. This poses a challenge to the entire tax and regulatory framework here in Canada – not to compete *grosso modo* with the economic regimes in emerging economies, but to emphasize the longer-term competitive advantages of our educated workforce, our social stability, our technology and the attractions of the Canadian life-style for mobile, highly-skilled labour and executives.

Pressure Point:

To build a competitive economy, we must also build a strong, healthy and "competitive" society. This is a challenge to social policy, and to all levels of government.

In a global economy dominated by MNEs, investment is the name of the game. We need to understand better why our overall share of international investment is shrinking. We need to know more about the impact of NAFTA on foreign direct investment, and what factors are key to international decision-makers. It will do us no good to win the trade battle but lose the investment war.

One of the fastest growing sectors is electronic commerce. As the world moves in this direction, we need to ensure that Canadian companies benefit from this revolution in the provision of financial services and the processing of transactions. Financial institutions and multi-national enterprises are beginning to loosen their ties to any particular geographic space. The tax and fiscal policy implications of these new forms of international commerce will be an increasing preoccupation of governments.

The World Trade Negotiations – 1999/2000

The rules set out in bilateral and multilateral trade agreements – notably the FTA, NAFTA and the World Trade Organization – have been crucial to the protection and advancement of Canada's trade interests. In multilateral settings, and through multilateral agreements, we can achieve objectives that would be impossible for us to secure bilaterally. And in the FTA, we gained a measure of treaty protection against the forces of American protectionism to which we would otherwise be highly vulnerable.

As the pace of global economic integration increases, there will be increasing pressure on the trading system, and on the WTO, to respond to new demands. For Canada, many of these demands will arise from our economic integration with the U.S. And while some pressures will be generated by our trading partners – principally the U.S. – many will come first and foremost from within Canada, as our private sector seeks to maximize trade and investment opportunities. The point is, these multilateral agreements are instruments that allow us to pursue our national objectives -- not simply our trade and economic interests, but our larger stake in a stable, rules-based international system.

Pressure Point:

The U.S. has identified cultural products as one of its two priority export sectors for the future.

The next round of the World Trade

Negotiations, which will likely begin at the turn of the century, will affect several of the most important and sensitive sectors of our economy, notably agriculture, textiles and services. Typically, these negotiations will touch on areas of provincial responsibility. Implementing international commitments at home will require intergovernmental co-operation and careful balancing of national and regional interests.

Among the critical issues that governments – both federal and provincial – will have to address in the next WTO round are how to prepare for significant adjustment in these sectors, and what to do about the issue of services. Along with manufactured products for the emerging economies, the service sector will be the principal source of growth in the world economy over the medium term. There will also be continuing public pressure to link trade with other issues such as labour, environment and human rights.

Trade in cultural products and services will be a major agenda item in the next WTO round and will continue to figure prominently on the Canada/U.S. trade agenda over the medium term. The U.S.

government will maintain an aggressive stance in ensuring that foreign markets are as open as possible to U.S. cultural products, despite the fact that the American share of those markets in Canada and the world is overwhelming. In the coming decade we must expect that the U.S. will launch further challenges to key elements of Canadian cultural policy such as foreign investment restrictions and other measures to protect our cultural identity.

The international "social" equation, in which trade is linked with labour standards, human rights and the environment, will remain a point of contention between developed and developing countries.

Winners and Losers

Canada is succeeding in the new economy, yet not all Canadians are sharing in that success – some lack the skills, others the opportunity. The risk of a fundamental social division between winners and losers, of increasing polarization and marginalization, is increasing – both within this country and globally.

Globalization leaves ghettos composed of those who do not, or cannot, play a full part in the global economy. This increasing inequity creates potentially unsustainable pressures on societies and on the international system. It is clearly in our interest to work to avoid the marginalization of individuals, groups and whole societies as a consequence of the new economic order that is emerging in this globalized environment.

Globalization is accompanied by marginalization of the poor – the total wealth of the world's 358 billionaires equals the combined income of the poorest 45% of the world's population – 2.3 billion people.

In all countries, including Canada, marginalization is manifest in the degree to which some women and other groups face barriers - ranging from access to technology to the amount of time they spend performing unpaid work - that prevent them from taking full advantage of the benefits of the new economy. Others affected include some immigrants, people from rural communities and many aboriginal youths. Removing these barriers is a critical challenge for Canada in terms of equity and social cohesion as well as our longer-term success in the world economy.

MAJOR ISSUE #2. The implications of increasing economic integration with the U.S.

The United States has long been Canada's most important trading partner, and with the negotiation of the FTA and NAFTA the inter-linking of the two economies has become still closer. Trade with the U.S. accounts for nearly 80% of our exports and 67% of our imports.

Pressures for Harmonization

Economic integration with the U.S. brings implicit pressures for the harmonization of the character and quality of life, including everything from environmental standards to health and social services. Products and brand names are becoming standardized throughout North America (and much of the world). This poses a risk to the distinctive Canadian way of life. But it is also an opportunity. Both by adopting U.S. standards, and by obtaining U.S. acceptance of our standards and our products – especially technology and cultural products – we secure a tremendous competitive advantage in the rest of the world. Issues of harmonization should be treated sectorally, so that we can best see how to maximize our advantages and protect our interests.

More attention will have to be paid to ways in which Canada can both protect and articulate, in the North American context, the features of our society that make it distinctively Canadian.

- We need to be aware of the increasing pressures on our social systems (e.g., health care, pensions) from practices in U.S. jurisdictions that are far less generous and ostensibly more conducive to short-term competitive advantage.
- But by the same token, we need to better understand the competitive *advantages* of the Canadian labour market and social support structure over the longer term, both in North America and in the global economy generally.

Pressure Point:

Continuing economic integration will influence Canada's perceived independence in North America, and in the world

The bottom line is that our ever-closer links with the United States – in trade, information flow and economic and social organization – will make it more difficult to retain a sense of distinct Canadian identity. This exacerbates existing divisions within our country and makes leadership on future national questions all the more difficult.

The Challenge of Retaining Skilled Workers

Economic integration under NAFTA is leading inevitably toward the creation of a single labour market in North America, if not for all workers, then certainly for the knowledge-workers who are critical to our success in the new economy.

The problem this presents for Canada is that, increasingly, the graduates of our universities, especially those in engineering and the sciences, are being attracted south by the prospect of higher salaries, better weather, greater investment in R&D and generally the opportunity to participate in the world's largest and strongest economy.

Pressure Point:

Canada's ability to attract and retain skilled workers (human capital) will be an issue on the same scale as the problem of attracting capital investment.

How can we compete? Clearly, the solution is not to try to erect new barriers to mobility or to disadvantage individual Canadian workers. After all, workers and employers in the European Union have access to a labour market of 300 million. The point is that, as a society, we will have to think about what we need to do to retain our human assets. More work is needed, both inside and outside government, on trends, flows, motives and policy options.

Diversifying our Exports

The proportion of our exports to countries outside North America is continuing to decline, leaving us heavily dependent on access to, and success in, the U.S. market. Yet this has occurred at a time when opportunities for diversification of our trade have never been better: world-wide liberalization of trade and investment rules, and the end of most command economies, mean that the range of potential economic partners has increased dramatically.

Today, nearly 80% of our exports go to the U.S. An important challenge over the medium term will be to strengthen our position in other markets, including our NAFTA partner Mexico. We must explore innovative options and

instruments for increasing the number of exporters and diversifying the markets we substantially supply. As well, we will need to reconsider the respective roles of government and the private sector in export promotion.

To say that we need to diversify is not to say that focusing on the U.S. market is a bad thing for Canada. We could not hope easily to replace the value of the U.S. market with others in Europe or Asia. The "Third Option" of the 1970s showed how difficult, and even foolish, it is to try to work against natural market forces. But we must also acknowledge that our "exports" to the U.S. consist largely, and increasingly, of intra-firm sales, principally automobiles. If we are to continue to improve our economic performance, we must also succeed in non-traditional markets in Asia and Latin America that are among the world's fastest growing.

MAJOR ISSUE #3. Protecting and advancing Canada's security interests in a multi-power world.

Over the medium term we will face new threats to our security from regional instability, the proliferation of nuclear arms and other weapons of mass destruction, international terrorism and new forms of espionage. Our understanding of the term "security" must be seen to include not only traditional military threats (and responses) but other threats to our national security.

Sources of Instability

Regional instability will increase. This has implications not only for Canada's military forces but for our national security as regional tensions find expression inside Canada. Among the key sources of instability:

- early in the next century, China will become the world's largest economy, with a new capacity to project military power; internal pressures (urban-rural, regional, political) are growing;
- the Korea peninsula is a potential flashpoint that could engage the U.S., China, Japan and even Canada
- along the southern border of the former Soviet Union, there is a continuing potential for conflict and disintegration that could have global repercussions
- in the Middle East – a critical source of energy supply for the U.S., Europe and Japan – religious fundamentalism, regional rivalries and pressures for long-overdue political reform will only increase over the medium term.
- tensions in the Indian sub-continent are manifest in the threat of terrorism in Canada.

Pressure Point:

The end of the Cold War has created a more unstable and more unpredictable international security environment.

Yet in this new security environment, long-standing threats will remain:

- Russia, which is far from being a stable democracy, retains the world's largest nuclear arsenal. The threat of the proliferation of nuclear materials originating in Russia has increased dramatically;
- China is both increasing its stock of nuclear weapons and improving its capacity to deliver them. Several states, including Iran, have nuclear weapons programs that may yield a nuclear capacity in the coming years;

These developments are but the most prominent examples of a pattern of increasing instability that is characteristic of our multi-power world. They have both military and broader security implications

Implications for the Canadian Forces

There will be continued pressure on the Canadian Forces over the medium term. Our allies, especially the U.S., will expect Canada to contribute to high-intensity operations, such as the Gulf War, when Western interests are threatened. There is a growing American interest in using NATO "out of area", and out of Europe altogether.

Pressure Point:

In a multi-power world, Canada's military and security institutions face new challenges

The price of an effective military force continues to rise, as military equipment becomes ever-more high-tech and thus more expensive. The point may come, if it has not already, where – almost by default and without an explicit decision being made – we will no longer be "in the game". This has significant implications for our relations with allies across the board, especially with the U.S., and for our influence in bodies such as NATO and the UN.

Given our limited resources, Canada's involvement in traditional UN peacekeeping operations may well decline, but there will be *peacemaking* operations in which there will be pressure from alliance commitments, as well as Canadian interests, for Canada to participate. This means an even greater requirement for combat-capable forces, and for carefully considering the circumstances under which we would use them. Our continued engagement in NATO will be critical to our security interests, not least because it enables us to influence U.S. policy and actions.

Where is the United States Headed?

Domestic isolationism, a narrower definition of national interests and budgetary and other pressures will act as restraints on U.S. willingness to undertake security commitments outside this hemisphere over the next decade. For example, in Europe, the U.S. is likely to cede leadership to its allies on issues that do not affect U.S. vital interests and to deprive the UN of the full support necessary for effective peacekeeping and peacemaking. Nonetheless, the U.S. has interests around the world, and is unlikely to become Fortress America.

The commitment of the U.S. to international institutions, especially the United Nations, could well decline still further in the years ahead. This threatens not only the effectiveness of these institutions, but their continued survival. It also

poses a particular threat to Canada's interests, since these are best protected when we can use our leverage in international organizations to shape the policy of the U.S. and other major players, and to mitigate bilateral pressures on Canada, especially in the economic sphere. A singular effort will be required to forestall American disengagement from the UN and other international bodies.

The U.S. defence budget is larger than the combined spending of the next five largest militaries – Russia, China, Japan, France and Germany

Non-Military Threats

Non-military threats to Canada's national security and public safety fall under four main headings:

- weapons proliferation;
- international and domestic terrorism;
- espionage, plus threats to economic and information security; and
- transnational organized crime and corruption.

These should all be matters of serious concern to Canada, as they are to our allies. Proliferation of nuclear, chemical and biological weapons is clearly a threat to global security. Terrorism today has many causes and takes a variety of forms, both international and domestic. There is no reason to expect terrorist activities to decline in the years to 2005, especially when ethnic conflicts are on the increase, as are the divisions between winners and losers, both state-to-state and internally.

The nature of espionage is changing. No longer focused entirely on the traditional military and security targets, it is today frequently aimed at the pursuit of economic advantage, whether for a foreign state or for a corporation. Similarly, the development of new information technologies and infrastructures creates opportunities for new threats to both states and private sector organizations. Here again, we must ensure we can identify and protect our assets, both public and private, against threats from new technologies in the hands of state or non-state actors that are hostile to Canadian interests. Indeed, we must recognize that, in the information age, information itself becomes a matter of vital security interest to Canada – not just as something to be protected, but as something to be gathered, analyzed and disseminated.

In a world in which borders are disappearing, transnational organized crime poses new threats to Canada. The menace of the drug cartels is known to everyone; less well-known is the threat posed by criminal activity in the electronic world of international financial transactions or pressures on residents of Canada imposed by criminal groups abroad.

As the term suggests, these "transnational" threats will require action in concert with other concerned governments and law enforcement organizations. They may also require a shift in police resources away from traditional forms of criminal activity to these more high-technology, high-value crimes that require new skills on the part of our police organizations.

MAJOR ISSUE #4: Vulnerability to global change and its threat to human security.

Global Change is Inexorable

Canada and other countries are increasingly vulnerable to global forces, notably global population, growth and industrialization of the developing world. Among their most significant consequences are:

- increases in the production and consumption of goods
- environmental degradation
- uncontrolled migration, and
- emerging and re-emerging diseases

These forces and the resulting pressures – not only on the natural environment but on human society – are closely interconnected. Yet the complexity of global change, the relatively long time frames required to understand trends and to develop the necessary domestic and international infrastructures, make it difficult to mobilize states and populations in support of remedial action.

It is also difficult for First World nations to lecture developing countries about the evils of industrialization or resource extraction, when they see us as having built our present prosperity on that basis. To produce an acceptable quality of life for the hundreds of millions more households in emerging economies that can afford western-style consumer goods and amenities will require a further industrial revolution of sweeping proportions. It will become essential to produce these items using a fraction of previous energy and materials inputs.

On the environment, four critical areas will particularly affect Canada:

- climate change
- ozone depletion
- the loss of biodiversity, and
- air and water pollution (in particular, the oceans and ocean resources)

All of these will grow in importance in the years ahead, both in terms of their direct impact and as areas in which Canada may be criticized for lack of corrective action. For example, we can expect pressure from countries (including the U.S. and Germany) for lower emissions of greenhouse gases. Canada, among a number of other signatories, will need to:

Pressure Point:
Many environmental challenges are global in scope; effective responses require international co-operation and action.

In 1992, Canada committed to stabilizing greenhouse gas emissions at 1990 levels by the year 2000. Currently, those emissions are 9.4% above 1990 levels; if present trends continue, by 2010 they will be 19% higher; by 2020, 36% higher.

- accelerate its efforts to conserve energy,
- adopt new combustion technologies, and
- engage in international partnerships for joint implementation

if it is to meet its post-Rio commitment to stabilize CO₂ emissions by the year 2000 at 1990 levels.

Globally, environmental degradation will be a function of both population growth and industrialization. We may well see the first indisputable impacts of climate change by 2005. Drought in the U.S. mid-west or south-west could put pressure on Canada to export water.

In the most general sense, the challenge for Canada and the other countries of the developed world will be to face up to these unavoidable phenomena, and to begin to adapt our own practices and positions accordingly. For example, if CO₂ levels are bound to rise globally, then we need to think about how best to invest our limited funds on the issue, given that our own contribution to the problem is relatively small and our capacity to influence development in China or India is limited. For example, it may be that research money should also be focused on *adapting* to the effects of climate change.

A Borderless World

Globalization destroys the isolation traditionally associated with distance. It erodes borders. Together, these phenomena undermine a traditional source of Canada's security – our geography. New threats are arising from a "borderless world" – environmental degradation, uncontrolled migration, new risks from disease.

These threats take particular forms in North America. To an increasing extent, Canada is seen as a "back door" to the U.S. for illegal immigration. There is similar traffic in the other direction – illegal immigrants, firearms, drugs, pollution, toxic wastes and even cigarettes. Canada will need to make investments to ensure that the openness resulting from globalization and NAFTA does not threaten the security or quality of life of Canadians.

Migration

For Canada, immigration has long been a source of talented, productive citizens who have helped to build a prosperous and successful country. Yet globalization, combined with increasing regional instability, has also stimulated a dramatic increase in illegal population movements and an influx of ethnic and religious conflict from abroad. Again, the government must be able to satisfy Canadians that a safe and peaceful society can be maintained. Otherwise we may be forced to re-think our traditional openness to refugees in a world where a billion people can afford a plane ticket to Canada. This same ease of travel to even the most remote parts of the world increases the threat to Canadians from infectious diseases such as AIDS and tuberculosis.

Pressure Point:

Globalization opens borders, which brings great benefits and at the same time makes us more vulnerable to new threats.

Poverty is a major threat to global security

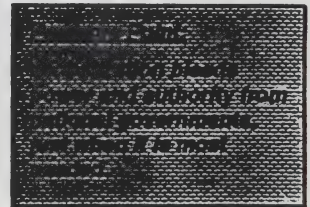
MAJOR ISSUE #5. *The erosion of traditional government power and authority resulting from the forces of globalization*

Globalization poses a challenge to the capacities, and the very relevance, of national governments. In a world in which the revenues of Exxon or General Motors exceed the GDP of many medium-sized countries (including Saudi Arabia, Indonesia, Nigeria and Egypt) national governments can easily find themselves playing second fiddle to non-state actors. Yet, paradoxically, the more "global" are the issues and problems facing the world, the more they must be addressed in multilateral settings in which nation states remain the key players.

In this new, globalized environment, Canada faces a two-fold problem: to compete successfully in the new economy, Canada must "get its act together" on everything from education to taxation to trade. Yet the federal capacity to lead on the critical issue of competitiveness is hampered not only by our decentralized federal system but by a global shift of national authority *upward* to international organizations (e.g., NAFTA, WTO), *downward* to the lower levels of government, and *outward* to non-state actors (e.g., interest groups, MNEs). Governments no longer have the spending capacity to insulate their populations from the impacts of globalization. In addition, fiscal restraint in Canada has removed the federal government from many traditional areas of program activity (and thus reduced traditional sources of leverage with the provinces).

The unity issue makes it more important than ever for the federal government to be seen to be relevant to Canadians, helping them meet the challenges presented by the new economy. Canadians continue to expect their government to show leadership on issues of national direction and social development, and to have this leadership reflected in the positions we take internationally.

In this new environment, the challenge is to find ways by which the government can lead, and be seen to lead, without reverting to old patterns of spending and federal-provincial conflict. Leadership will depend increasingly on vision and consensus-building on difficult, divisive issues.



Dealing with Non-State Actors

Today, virtually every Canadian institution, public or private, and especially the provinces, has an international interest and increasingly some form of international engagement. To take but three examples:

- Canada's urban centres are vigorously engaged in competition for foreign investment with counterpart cities in the U.S. They also form links with many other parts of the world, including China.
- Provincial Premiers have close relationships with their U.S. counterparts, and meet regularly in regional forums.
- Federal departments have their own relationships with counterparts in the U.S. and abroad.

Pressure Point:

The number of non-state actors has risen dramatically in recent years – yet the government is still not organized to deal effectively with them.

Provincial interests in the international scene are diverging, partly as a result of the particular nature of their engagement in the global economy (B.C. with the Pacific North-West and Asia, Central Canada with the U.S. Mid-West, Atlantic Canada with the Eastern Seaboard of the U.S. and with the Caribbean, etc.) And their differing demographic composition produces differing human links with other countries. To talk of “managing” this myriad of relationships in any rigorous sense is unrealistic. At best they can be *coordinated* within a wider framework of shared interests and declared objectives that Canadians can see as a reference point for these thousands of international linkages.

Globalization requires much greater engagement by national governments with provincial and other governments, citizens, interest groups, corporations and a host of other non-state actors. The articulation and pursuit of Canadian interests in the new international environment will require new mechanisms for coordination and consultation. It places a new obligation on all governments to seek out new partners and to create new issue-based coalitions of common interest. All this interaction takes time and money, in a period when resources are being cut.

The number of international NGOs rose from 1000 in 1956 to 4700 in 1992; the number of MNEs from 7,000 in 1972 to 37,000 in 1992. These international players have a stronger voice with every passing year. We have to organize ourselves to work effectively with them, and to respond to them where necessary (e.g., when

Greenpeace in Germany and the UK threatened the B.C. forest industry on the basis of faulty information about cutting practices). But there is also a positive side to all this – for example, Canadian NGOs often contribute substantially to Canadian delegations to international conferences and negotiations on human rights and environmental matters. In a similar vein, the private sector is manifesting a social conscience as companies such as Nike and The Body

The annual budget of Greenpeace International is twice that of the United Nations Environment Program (UNEP)

Shop make equity and the environment a major element of their corporate ethos and marketing strategies.

International Institutions

Most of the existing institutions on the international scene are 50 years old. Many do not possess the structures and capacities to respond to the needs of a growing, and sustainable, world economy.

As we have noted above, in a globalized environment, national authority is in part being shifted upward, the agreement of national governments, to internationally-agreed trade and economic regimes. The Government of Canada has an obvious stake, therefore, in making international institutions more effective, and in making Canada a more effective player in them.

Institutions such as the UN system and NATO require reform and renewal. We need to think about how to do that, working in concert with our international partners, both state and non-state. We should face the fact that mere membership in an international organization does not of itself serve our interests or those of the world community. We must be prepared to invest the necessary time, resources and political attention in making those institutions work in ways that serve both our objectives and the common good. We will also need to devote more effort to "policy intelligence gathering" so as to inform domestic policy-making with best practices and innovations from abroad.

It is becoming apparent that the inter-governmental process, at least in its current form, may not be able to address all the needs of our planet at a time of global change. Both international organizations and individual states will need to encourage the emergence of something like a global "civil society", based on shared values, responsibilities and commitments.

This is a project for the longer term, but this kind of sustained endeavour will be necessary, however it is described.

The "Turbot War" was an example of the use of "soft power" to sway world opinion in support of a key Canadian objective.

New Instruments of Influence on the International Stage

The power of information and knowledge – so-called "soft power" – is becoming an ever-more important means by which states can influence the terms of the international debate.

The reality of the globalized multi-power world is that governments no longer have a monopoly on power, as they did when military might was paramount. Information is rapidly becoming the most valuable input and output in the economy, and government's old monopoly on information has disappeared. Emerging global communications networks, ranging from CNN to the Internet, provide new avenues of influence for both non-state actors and governments.

In this new environment, there is a need for research and new thinking on how to harness a wider range of national instruments in support of our national interests. The challenge is to learn how to better project Canada's presence

and values into the world, how to influence opinion at a global level, and how to *understand* what others are thinking.

In a very practical sense, we need to redefine what kind of government presence abroad will be most effective for purposes of both diplomacy and trade development, and how to make best use of scarce developmental resources to address the growing polarization between rich and poor in the developing world. It is increasingly accepted in most capitals that to be a player in a globalized world means having a global presence overseas. The age when “regional” foreign policies were an option is past. International relations is a growth industry for the public and private sectors alike, where the value-added of governments lies in weaving together sometimes disparate interests on the basis of relevant intelligence and focused expertise.

Multilateralism

In the years leading up to 2005, governance – both national and international – will be challenged by the complex crises that only a globalized world can create. Increasing integration brings its own vulnerabilities, many unthinkable only twenty years ago. For example:

- a severe earthquake in Tokyo or Los Angeles would wreak havoc in world financial markets
- a revolt among the Russian military would severely dislocate current economic reforms and create a risk of armed conflict within Russia or on a wider basis
- wanton terrorism takes on a whole new significance against the backdrop of proliferation and trafficking in weapons of mass destruction
- another major accident at a nuclear power station is almost inevitable in the next 25 years, with potentially severe environmental and economic consequences
- ozone depletion, loss of biodiversity and climate change are major threats to human security that we have yet to come to grips with

What lesson should we draw from these considerations, and a host of others that could just as easily have been mentioned? Perhaps the most important is that in a globalized environment, we will all sink or swim – together. No country, not even the U.S., can insulate itself from what happens elsewhere. All share the risks and the vulnerabilities; all can prosper by working together. This fact helps to explain Canada’s long-standing commitment to multilateralism – the recognition that our national interests are served by working with others toward common goals. It is a premise that has underpinned Canada’s international vocation since WWII. In the years to come, it will be more important than ever to the pursuit of our interests and the promotion of the values that matter to Canadians.

V. An Agenda for Further Research

The discussion in this volume has focused on three questions:

- Why does the new international environment matter to Canada today?
- How has the world changed, in ways that are relevant to Canada, and what are the major forces driving those changes?
- What are most important implications of all this for Canada – how will these forces and trends affect the policy choices facing Canadians and their government in the medium term?

The need to respond to unforeseeable developments places a premium on flexibility, information-gathering, research, analysis, and horizontal policy capacity.

Now we face a fourth question -- *how can we improve our understanding of these changes and the various pressures which they are putting on Canadian policy?*

What does the foregoing analysis imply for the research agenda of the federal government over the medium term?

The present section does not attempt to list all the many research questions noted in the discussion and issue papers contained in Volumes II and III of this report. Instead, drawing on the observations in Section IV above, we want to set out the key questions that we believe are of strategic importance and policy relevance to Canada.

General Observations

All federal departments and agencies recognize the importance of adapting their policy initiatives in light of international developments, and using international mechanisms to pursue domestic policy interests and objectives. Clearly, there are no longer "international departments" and "domestic departments"; all are influenced by global economic, social and political developments.

However, not all departments and agencies are equally (or sufficiently) capable of operating effectively in this global environment. And not all are accustomed to working collaboratively. The members of the Sub-Committee agree on the need for more data and information exchange, greater transparency of research, analysis and planning, and more strategic alliances on matters of mutual interest – both among federal departments and agencies and, where appropriate, with partners outside the federal government.

While researchers and policy analysts seldom have access to all the data and information they might wish, both the availability and comparability of reliable information across countries is a fundamental constraint to good research and analysis. As well, access to data disaggregated by gender and other cross-cutting variables needs to become part of the new way of doing research.

Accordingly, we need to increase our efforts to:

- systematically compile data on selected economic and social indicators ("megatrends"), disaggregated by gender
- benchmark industry actions, public policy and the resulting structural and performance impacts in strategically important sectors and countries,
- systematically gather policy intelligence and research from international institutions, think-tanks and foreign governments, and
- improve the sharing of such data and analyses among all departments and agencies.

Our research goal is to critically assess Canada's strengths and weaknesses, in light of anticipated opportunities and challenges in the globalized, multi-power world, and thereby to support government policy that will enable Canada to succeed in this new environment.

Key Questions for Further Research

A dozen questions that we see as central to an internationally-focused agenda for research are outlined below under headings that correspond to the five major issues identified in Section IV above. We should note that while all of these questions arise from our reflections on the global challenges and opportunities facing Canada, many also surfaced in other forms in the PRC's consideration of domestic issues. This simply reflects the interconnectedness of "international" and "domestic" issues and interests.

1) The Challenge of Competitiveness in the Global Economy

- a) How are Canada's "comparative advantages" changing in the globalized knowledge-based economy?
- b) How is economic integration and the emergence of the global information society affecting Canada's cultural sovereignty and national identity?
- c) Multi-National Enterprises (MNEs) are key actors in the global economy. How are the strategies and practices of MNEs evolving? What can we learn from other countries' experience in order to influence their actions, particularly in terms of attracting foreign investment and leveraging maximum benefit from outward investment?

Without access to high-quality data, it is difficult to explain observed trends or effects around the world or even clearly to describe them.

2) The Implications of Continuing Economic Integration with the U.S.

- a) What are the implications of a continuing trend toward Canada-U.S. economic integration?

- b) What are the consequences of further harmonization of Canadian standards and policies with international or U.S. norms? Which business sectors and elements of society will gain or lose?
- c) How is continuing economic integration influencing perceptions of Canada as an independent player on the international scene?

3) *Canada's Security Interests in a Multi-Power World*

- a) What are the implications of the issues and developments discussed in this report for the future role and capacities of Canada's military and security institutions?
- b) Which 'low probability/high impact' events are of most strategic importance to national security and public safety, and warrant substantive contingency planning?

4) *Global Change and Threats to Human Security*

- a) What can be done to mobilize international coalitions of state and non-state actors in support of international action on global issues, and human security issues in particular?
- b) How can international institutions become more effective in addressing transnational problems and disputes? What roles and specific interventions are appropriate for Canada?

In the new environment, governments must deal with public policy issues and decisions in a more "horizontal" and integrated way, and view them explicitly in an international context.

5) *Governance*

- a) How does the dispersal of national authority (to supranational institutions, subsidiary levels of government, and non-state actors) affect the ability of Canada and other countries to act effectively on the international stage?
- b) How can federal and provincial governments work more effectively with each other and with non-state partners to pursue national and regional objectives in the new international environment?

VI. Conclusions and Recommended Next Steps

Work Horizontally

If there is a single major insight that emerges from our work, it is that the driving forces in the new international environment have impacts that cut across the traditional categories in which issues are defined and policy research is carried out. This calls for a fundamental reorientation of how so-called "idea work" is done in government. In the future, we must work more collaboratively, and horizontally, across the departments and agencies that pay our salaries.

- We need to broaden our understanding of the issues raised in this report, and our sense of how to approach them.
- We need a better appreciation of the factors that contribute to success in the new economy.
- We must understand how the federal government can best make the new kinds of investments required to sustain a healthy and productive society.

Three Proposed Action Steps

The Sub-Committee on Global Challenges and Opportunities proposes immediate action in three areas.

- 1) Taking into account the views of Deputy Ministers on the findings and recommendations in this Report, Sub-Committee co-chairs should be tasked with refining the research agenda set out in Section V. and returning to Deputies with a **detailed, inter-departmentally agreed research plan**.

The proposed research plan should be developed in collaboration with the PRC. It should build upon the on-going efforts of both individual departments and the work of various interdepartmental groups, including the various PRC subcommittees. Our objective would be to inject the 'international dimension' more fully into all of the federal government's research and policy planning activities, on an on-going basis.

- 2) Sub-Committee co-chairs also should be tasked with developing a specific action plan to **institutionalize inter-departmental co-operation** on those aspects of the above research agenda that are not being addressed elsewhere, and for which a strong international orientation is required.
- 3) In light of the priority interests expressed in (1) and (2) above, Statistics Canada, in collaboration with DFAIT and other interested departments and agencies, should develop an **action plan for improved data and information systems** to support international comparisons and assessment of the impact of international trends on Canada (noting that this is a long-term effort, requiring the co-operation of other governments and the active participation of several international institutions).

Two Priority Areas for Research

The research plan should be tightly focused on priority areas that are not being addressed elsewhere, and for which a strong global orientation is required. We see it as dealing with two broad issues:

a) International Governance

- the prospects for, and implications of, the growing harmonization of policy and standards across national borders;
- the future role of international institutions, and how they ought to be reformed to suit the needs of Canada and the world community in the coming years;
- understanding how the new instruments of influence and new partnerships can support the pursuit of Canada's interests at home and abroad.

b) Changing Roles and Expectations of the Federal Government

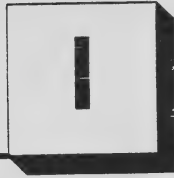
- examining innovative ways of working with provincial governments and non-state actors on matters where Canada's international interests are engaged
- assessing the changing security environment and its implications for both human security and traditional military security.

A Last Word

As much as the current problem of unity, or the pressing issues of debt and deficit, employment, poverty and education, the challenge of responding to these external forces and realities will be a major preoccupation of Canadian governments over the next decade. Canada's ability to meet these new challenges, and to make the most of the opportunities, will largely determine our success in meeting our more "domestic" objectives, including the preservation of a strong and united country.

VOLUME II

Part



Research Building Blocks

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1. Canada's Role in 2005

The Issue

This paper explores how Canada's relationships with a changing world have evolved and where they may be headed.

It examines how the world in which Canada was so successful for so many years after World War II is coming to a close. The challenges of a bipolar, Cold War world are being replaced by those of a world characterized by a single super power – the United States – and many "middle powers". This is a world where global economic forces transcend borders and where information is replacing goods as the main commodity of trade. It is also one in which the nature of governance, both within and among states, is changing rapidly, as Canadians are only too well aware.

Coming to grips with these changes requires us to reconsider not only Canada's foreign policy but also a range of domestic policies that are inextricably linked to our role in the world. We need to be very clear about our national interests in this new environment, while not giving up the commitment to broader Canadian values that has always characterized our role. Likewise, we need to understand the changing nature of power in the world, including the emergence of "soft power" based on information and knowledge, and the continuing but changing requirements for military power. To understand the challenges and opportunities for Canada in the new international environment, we must be realistic about our assets and liabilities.

From this discussion, the paper develops a vision of Canada's role in 2005, taking into account the seemingly unstoppable trend to globalization, the limits on the financial resources available to support Canada's role, and the need to focus our spending and to redefine our objectives in relation to an evolving sense of our interests. This will also require us to rethink the mechanisms with which we carry out the various aspects of our role in the world.

Canada in a Changing World

The Post-War World

In the post-war period, Canadians became accustomed to thinking of themselves and their country as a classic "middle power". It was a comfortable identity, lending weight to our self-image as neither large nor small, rich nor poor. We were helpful fixers, experts at compromise, multilateralists with good manners. We could be counted on when the call came from our allies in NATO or our friends in the UN. Often it seemed that we were motivated more by ideals than by narrow national interests. While we doubted North America was a region in any real sense, we were reassured by the thought that Canadians were citizens of the world.

This middle of the road, not to say middle class, view of our role was buttressed by the fact that the last half century had been exceptionally favourable to Canada. Economic developments and the geo-strategic context favoured us as a nation. It was a time of prosperity at home and influence abroad. Governments were regarded widely as instruments of social progress, whether inside Canada or through international assistance efforts directed at the third world. Our multilateral credentials were forged at the birth of many international organizations, such as the UN and its agencies, NATO, and the Bretton Woods institutions.

Our role in this institution-building phase was substantiated by our creativity and by the resources we were prepared to commit. Our economy was growing fast, unscathed by war compared with most of the former big powers. Our influence, however, was relative: Europe and Japan were re-building, while the superpowers were locked in a nuclear arms dialectic of their own. Though a faithful ally, Canada achieved a distinctive international profile by promoting human rights, peace-keeping, disarmament, and development. Although these were very much values-driven commitments, the argument was that Canada was best served by a rules-based international system and by stable, developing economies. It was also true that while our vital interests in the area of peace and security were protected by others, economically, we were much less vulnerable to forces beyond our borders.

Canada occupied a unique place in the post-war world: rich and capable, a western ally but committed to international organizations and pursuing a value-driven foreign policy. Yet we saw ourselves as an "average" nation.

This self-image was never very accurate. We were in no way an average country, in the middle of the international spectrum. Canada was rich, very rich, compared with virtually all other countries. Our territory had scarcely been touched by war: you have to go back to 1812 to find the last attack on our territorial integrity. We had incredible assets by any measure: a highly educated work-force, sitting on a huge store of natural resources. Finally, we were members of some very select clubs, including NATO and the G7. In fact we were a member of more clubs than any other country, period. All of these endowments put Canada at the far end of virtually any international spectrum. We were not at all average in the post-war period, though it suited our modesty to think so.

New Global Challenges

That world, in which we did so well, is now coming to a close. The Cold War masked the full extent of global change that had been building for decades. The sudden demise of the USSR, coupled with the triumph of technology and policies promoting economic liberalization, has revealed a world very different from the one in which we matured as a nation. The USA has emerged as the single "full service" superpower: militarily, economically, and in the realm of what has become known as "soft power". Meanwhile, most other countries, except for the poorest of the poor in Africa, have become what we used to call "middle powers".

In terms of relative influence, the international spectrum has narrowed considerably, with the majority of countries crowding the centre. Even the USA occasionally acts like a middle power, especially when it hesitates to use its overwhelming strength for fear of casualties. In sum, most countries are better off economically and more democratic than ever before. Traditional inter-state conflicts are down, and many states have graduated beyond the need for development assistance. The demand for what we did best for forty years is falling off.

Of course there are new challenges in a global context. Economic integration and digitalization has diffused economic decision-making. The mass migration of people across borders has become a global phenomenon, exacerbated by population growth of 100 million births per year. Population growth will not only exacerbate environmental degradation, it will tilt the balance more markedly in the direction of a much more populous and youthful developing world vis à vis an aging developed world. International crime not only tilts the playing field; it corrupts entire governments. Terrorism is now "any time, any place, for anything", shaking the confidence of governments in terms of their ability to ensure public safety. The early success in dealing with such global environmental problems as ozone depletion has not been matched in other areas, whether climate change, deforestation, or loss of biodiversity.

In the new international context, our traditional advantages count for much less. The global challenges of environment, population, migration and conflict confront us as much as other countries.

As the links between environmental degradation, population growth, ethnic conflicts, migration, and so on, become more apparent, it is clear that the main challenge ahead is to come to grips with an inter-related complex of opportunities and threats. There has never been a greater demand than now for lateral thinking.

The Changing Nature of Governance

All governments in all countries are facing the global challenges described above. Yet there are some uniquely Canadian factors that will underpin the way in which we will respond.

It is often said that today the sovereignty of central governments is dispersing both upwards to multilateral organizations and downwards to sub-national units and to citizens. Even authoritarian governments are finding that global markets and the flow of information leads to a decentralization of knowledge and decision-making that cannot be controlled from the centre. Conversely, the explosion in multilateral treaties dealing with trade, arms control, the environment, etc., is circumscribing state sovereignty by the imposition of international obligations. The proliferation of international law is reducing the scope of domestic policy-making everywhere, at the same time that liberalization is diffusing economic power.

These trends, common to most industrialized countries, are already well-advanced in Canada. The integration of the North American economy is the most graphic example, where the surrender of sovereignty in one area will have repercussions across the broad range of domestic policy. Canada has also been in the forefront of decentralizing powers to sub-national actors, especially provinces, but implicitly to non-governmental actors too, through enhanced consultation and engagement. Some foreign observers have described this trend in Canadian federalism as "hyper-democracy": not something to be emulated. The fact remains that the fiscal realities facing the federal government will translate into a reduction in government, and therefore further shrink state sovereignty. Far from being counter-balanced by the provinces, reductions in government at the provincial level tend to reinforce this trend.

Of course the shrinking of governments is not being driven by financial considerations alone. Governments are not viewed by the Canadian public as vehicles of social progress to the same extent they were in the post-war period. But this development, visible in most Western countries and felt acutely in Canada, is producing a peculiar effect in the North

American context. By negotiating away Canadian sovereignty in some key areas, albeit for important reasons, we constrain our ability to make effective domestic decisions in economic and social policy and elsewhere. Harmonization, convergence, labour and capital mobility will increasingly make those decisions for us. But this phenomenon also has a direct impact on our ability to deliver a viable foreign and trade policy. It is affecting, and will increasingly constrain, our international influence.

The USA has not yet drawn any explicit linkages between our economic interests in the American market and other areas of foreign policy where the USA may be seeking our involvement. Yet the implicit linkage is there, even if only in the minds of Canadians.

Potentially, this could lead to a form of self-censorship. The pressure may become more explicit as economic integration proceeds. We need to ask ourselves how much manoeuvring room will be left for non-economic issues as our economic interests become increasingly locked into the American dynamo.

The trend toward shrinking state power is also evident in international organizations. The UN's struggle to reform itself, together with American recalcitrance to pay its debts, means that this organization risks being increasingly marginalized, especially when the interests of the big powers are directly engaged. The European Union will likewise remain preoccupied with internal change, rather than with the consolidation of European interests on the international stage. Once its mission in Bosnia is rolled up, NATO will once again worry over its role in the post Cold War context. Questions of internal reform, including NATO enlargement and the creation of a new task force structure, will dominate debate, but will be an insufficient substitute for agreement on a new role. Even the WTO will be in a transition phase, as it debates issues of membership, and countries begin to prepare for a new round around the year 2000. International agreements on the environment, the proliferation of nuclear weapons, together with nuclear disarmament initiatives, seem to have reached some kind of limit. Further progress is being circumscribed by the interests of a few states, whose signature is key to the effectiveness of a given treaty.

Canada's sovereignty, like that of other countries, is increasingly circumscribed by multilateral arrangements and diluted by the decentralization of knowledge and decision-making. This is exacerbated by the increasing integration of the North American economy and the declining role of both federal and provincial governments within Canada.

Coming to Grips with Change

The double bind affecting both national and international governance barely surfaced in *Canada in the World*, the government's 1995 statement on Canada's foreign and trade policy role. There, our international objectives were described as:

- the promotion of prosperity and employment;
- the protection of our security, within a stable global framework;
- the projection of Canadian values and culture.

The statement recognized that these objectives are inter-related: stability and security are prerequisites for economic growth and development; our own security is increasingly dependent on the security of others; while the successful promotion of our values will make an important contribution to international security in the face of new threats to stability. But the objectives do not take into account the two most important cross-cutting issues for 2005:

- the changing nature of governance (domestically and internationally), and
- the integration of the North American economy.

There is at least the potential that these two issues may converge, with deadly consequences for Canada. A USA in 2005 that is hurting domestically, or led by an ideological new President, might take a dramatic turn to the right and become both more unilateralist and more protectionist. This would have a devastating impact on multilateral institutions and on our exports. Just because our relationship with the USA has been relatively benign in recent years does not mean we should expect more of the same in 2005. We need to anticipate now our vulnerability and work to reduce it.

Canada's Foreign Policy

Though it is an over-simplification to say that Canada has pursued a values-based foreign policy, values have often been key. When important principles were at stake, Canada could be expected to engage. We were strongly motivated by our humanitarian instincts, whether through contributions to humanitarian aid, human development, peacekeeping, the environment, and the creation of an equitable rules-based international system. Our objective was not solely the day to day management of conflicting interests. We sought progress towards an ideal in international governance: democratization and the disinterested peaceful resolution of disputes have always been important goals for us.

Canada is increasingly vulnerable to political and economic pressures, both internal and external, and must develop its strategies accordingly.

Hence our actions on the international stage have traditionally been value-laden. Often, our engagement did not reflect specific Canadian interests, short of the generalized interest in the promotion of a stable, rules-based international community. This was possible in the post-war period because our interests were protected by what appeared to be a fairly stable correlation of forces. The USA largely guaranteed our security through NORAD and NATO. A protected domestic economy, together with a few traditional markets and investors, immunized us against the tribulations of those powers recovering from war, or struggling to break free from the cycle of poverty.

The break-up of the international system that had in essence stabilized East-West security, the emergence of new global security threats, the opening of borders to trade and investment flows, have served to remind Canadians that they continue to down-play national interests at their peril. Values-driven actions will always characterize our international role, since they are integral to our national identity. But the sudden emergence of trade and economic policy, as possibly our single most important foreign policy instrument, is an indication that our values will have to be tempered by greater sensitivity to our interests as a country.

National Interests

What are our interests? At the most basic level, we need to focus on where we want to be as a country in 2005, and what foreign and trade policy instruments we will need to get there. This is not only a question of what domestic arrangements we may wish to put in place. We should also focus on what international agreements or organizations we will need to help us get there. Some of those instruments are already available, and we should give them priority within a shrinking resource base. Others we will have to devise, working with domestic stakeholders and international partners alike. But in both instances,

our ability to pursue interests will be weakened if we let our capacity to take action internationally wither away. The key is ensure our vital interests are matched with sufficient resources to protect them.

It should not be assumed that Canada's interests will be radically different in 2005. Many of them are the eternal preoccupations of peace, prosperity and security for our citizens. Others date from the post-war period. Some are becoming more important, others less so. Key to an understanding of interests is the fact that they imply a ranking of priorities. The place to start is the identification of vital interests. These are interests essential to the continued existence of Canada as a country. They are indispensable to the exercise of our sovereignty and the survival of our institutions. Vital interests are not created by political agendas or by public opinion.

Using this definition, the following list of vital interests is illustrative:

- to reinforce Canadian unity on the international stage;
- to maximize and protect our access to the USA market;
- to promote rules-based systems governing trade, financial markets, energy, and the environment, and to prevent the collapse of existing regimes;
- to engage China and Russia in the international system, and to prevent the emergence of a hostile hegemonic power in Asia or Europe;
- to promote international regimes that protect Canada's ecosystem, and so prevent uncontrolled environmental change;
- to deter and prevent the threat of nuclear, chemical, or biological weapons attack on Canada, or on the United States;

Vital interests are not created by political agendas or by public opinion. They are indispensable to the exercise of our sovereignty and the survival of our institutions.

The development of a hierarchy of interests, including the identification of vital interests, is the first step in defining Canada's role in 2005. This process helps match priorities against shrinking resources. It enables us to navigate through the complex of competing interests within the international community. It assists us in developing coalitions of the willing in the pursuit of common objectives. But agreement on vital interests is also the necessary precursor to the identification of existing or possible mechanisms, domestic or international, that will best safeguard those interests.

Values

The calculation of national interests does not, however, mean the abandonment of the values that characterize, and will characterize, Canada's international contribution. Our values-based actions, though sometimes unjustified by narrowly-defined national interest, are often crucial to a greater good. That greater good is sometimes nothing more nor less than human dignity and compassion, or the very real interests of planet Earth. This is where the single-minded pursuit of national interest breaks down. Canadians recognize the difference, which occasionally surfaces in such issues as trade and human rights. At stake are competing goods defined by separate universes. They cannot be traded off one against the other, and attempts to do so are inevitably perceived as disingenuous. The real issue is the mobilization of resources where money is tight and only a well-focused

contribution is feasible. More research is required to determine the relevant and perhaps shifting weight of interest and value for Canadians. Which issues play to both galleries?

Canadians will have to be convinced that specific actions with resource implications are worthwhile, especially when their return on their tax dollars continues to fall. Much more effort will be required both to consult Canadians and to explain policies if public engagement and interest in international affairs is to continue at current levels. A better grasp of interests, and their relation to values, will help provide some clarity. But a clear sense of priorities is important in another respect. Nations define themselves on the international stage. Initiatives that resonate with Canadian values create a mirror for that elusive Canadian identity. The growing importance of unity for foreign observers and stakeholders makes values definition a vital interest too. Unity, and the perception of our unity by foreigners, will contribute to (or detract from) our international influence. It will either enhance or erode our power to shape international agreements that have important domestic implications. But does unity in foreign affairs always mean uniformity, i.e., speaking with one voice? Canada also prides itself on its diversity. Can we conceive of a future where provinces and citizens are given a greater voice internationally, where this both reinforces unity at home and enhances our reputation abroad?

In a time of tight resources, Canada will need increasingly to balance its national interests against its commitment to values-driven policies and actions. This will require a better understanding of the relationships between values and interests, as well as a stronger sense of how to use our resources more effectively.

The Changing Nature of Power

Power in the Cold War context was easy to understand for experts and public alike. It was defined in terms of military might: indeed it was military might that characterized the two "superpowers". It also had important economic spin-offs, since client states, even allies, were expected to be cooperative in areas well beyond the purely military. Even within national governments, the "power" ministries that dealt with strategic issues and East-West relations, such as foreign and defense ministries, had a privileged role. Their calculations often tended to over-ride the considerations of domestic ministries.

Soft Power

With the end of the Cold War, the nature of power has changed dramatically. In one sense, there is only one real superpower today. But what we mean by the term "superpower" has also changed. The USA is paramount not only because of its capacity to project military force. It is a superpower because it combines this asset with both economic power and what has come to be called "soft" power – the power of information and knowledge.

In a strange turn of events, most countries are now middle powers, using this new definition. Each has a combination of military force, economic weight, population, resources, etc. that make it a player on a particular set of issues. With the demise of the client state, there really are fewer small powers. Power is measured by a combination of factors, and sometimes the most important is the least tenuous in the traditional sense, i.e., soft power. The image of a country in the eyes of key foreign observers can give it influence out of all proportion to what usually constitutes international standing. In the new world order, the axis of influence will no longer be sheer military might, but focused

expertise, economic ingenuity and agility, and soft power. Canada will need to emphasize the creation of new institutional capacity in order to leverage our interests, especially at a time when the economic integration of North America will erode traditional policy instruments.

In this new world, where power will be much more diffuse, and more malleable, cooperation with like-minded countries will be *de rigueur*. Moreover, we will find that the definition of a like-minded country takes on a whole new meaning. Though we will continue to work with our traditional allies to accomplish shared objectives in many fields, we will increasingly find that like-minded often means countries that are new partners for Canada, outside the North Atlantic community. Power in this context will have as much to do with networking, coalition-building, and the horizontal management of issues as with the resources we can bring to bear. For Canada, issue-based coalitions will become as important to the management of our big neighbour as the alliance structure once was. Hence the break-up of blocs, whether North-South or East-West, is potentially an important opportunity for a country living beside the world's only superpower. Research is required now on which emerging economies will be key to the promotion of Canadian interests in 2005.

Our ability to create these coalitions will depend in part on our mastery of soft power. Soft power is the art of disseminating information to foreign observers, including international media, in such a way that desirable outcomes are achieved through attraction rather than coercion. Soft power sets the terms of the debate, and so influences the nature of the solution. It blurs, even counters, the perception of traditional power assets, such as military force, economic might, resources and population. While military power seeks to occupy physical space in the shortest time possible, soft power occupies minds over a period of time. Competing interests will be resolved to our advantage when we can bring others into our world-view and time horizon. By 2005, the impact of soft power (for better or worse) will only increase, due to the fact that technological intelligence will be much more highly connective. Whole new technological ecosystems will emerge making current distinctions between software and hardware irrelevant.

The implications of soft power for government are huge: governments will no longer be the sole preserve of interactive power. New informal partnerships for the management of information will emerge. In other words, states will not have a monopoly on soft power assets. Government's will be expected to manage through the provision of information, rather than through coercion. In the international context, that will mean the provision of market intelligence and information relating to the negotiation of international agreements. It will also mean that the protection of national interests will have more to do with the projection of information than the projection of military power. Soft power can turn enemies into allies because it shapes perspectives. In doing so, soft power is transforming the diplomatic craft, to the extent that the sharing of information, rather than its safeguarding, can be crucial to success. The exercise of soft power requires a deft touch, where the gathering of intelligence is complemented by the selective distribution of information. The difference from traditional diplomacy is that soft power necessitates a

A key feature of the post-Cold War world is the emergence of "soft power" – the power of information and knowledge – as a crucial aspect of international relations. Power is now far more diffuse, based on co-operation with new partners through issue-based coalitions. Soft power occupies not territory but minds. It means that governments no longer have a monopoly on power, as they did when

broader, horizontal management of assets and issues, and the use of multiform diffusion techniques.

Further research is required on how soft power can be deployed to our benefit in such areas as the perception of Canadian unity, the attraction of foreign investment and skilled immigrants, tourism, or even multilateral security arrangements. The biggest challenge, of course, is creating a space for Canadian soft power despite the overwhelming dominance of American information. Our "bandwidth" is pretty narrow. In the future, it will come under even more pressure as newly developed economies come on-line. It will have to be distinctive. We will also need to know how to build on the soft power assets of other countries when it suits us, i.e., how will we be able to create soft power coalitions on specific issues?

A Continuing Role for Military Power

Of course military power will continue to be essential in specific circumstances. There is sometimes no substitute for military power in the form of "hardened assets" when vital interests are threatened. Under what circumstances is this conceivable? An interstate war in the Gulf, or the collapse of a regime there, would have an immediate and dramatic impact on Canadian interests in the global energy market. A major conflagration on the Korean peninsula might also draw us in, due to the likely involvement of the USA and conceivably Japan. Other scenarios that are lower in probability but high in impact include the need to counter flagrant aggression against another state, or to punish the use of weapons of mass destruction. Such things as revolution in China, nuclear terrorism, and a major war between relatively big powers like India and Pakistan, though unlikely, are at least conceivable. It may be that the current decade is untypically peaceful and, like the 1890's, the lull before the return of high-intensity (and expensive) conflict.

Finally, we might be drawn into a high intensity conflict because we are asked by the USA or NATO to participate in a multinational coalition. Here, the interest is not so much the conflict in question as the importance of our relationship with our neighbour. All of these scenarios call for combined operations where flexible, mobile, inter-operable forces are required. Research is required to identify potential high intensity conflicts where Canada will want to, or will be expected to, contribute. This will help determine what kind of forces we should plan for now, when the lead role will almost certainly be filled by the USA.

Military power will continue to be important in the world and as an aspect of Canadian policy. We will need to be prepared for involvement in both high and low intensity conflicts. Our relationships with the USA and our contribution to multinational forces will be key.

We cannot avoid preparing for potential high intensity conflicts where our vital interests are engaged. Conversely, there will be many more low intensity conflicts, largely of an intra-state character, where no specific Canadian interest is threatened. The obligation to contribute will be largely humanitarian in nature, perhaps driven in part by the CNN factor or émigré communities in Canada. Research is required into what multinational forces are conceivable without significant USA involvement. The answer may be none. If so, we will again have to take into account inter-operability with American forces as key to future deployments. Moreover, enhanced surveillance technologies will become increasingly important to the successful management of low-intensity conflicts.

We will want to identify a niche for Canada in this area.

Canada's Foreign Policy Assets

What assets do we have, and what assets will we need in the future to exercise influence and protect our interests? The Government's statement, "Canada in the World", claimed that our international role benefited from the following assets:

- Canada is an open, advanced society;
- Canada's geographic location favours us in the new international context, providing us a window on Asia/Pacific, the new Europe, Latin American, and direct access to the world's most important market, the USA;
- Canada's cultural heritage provides it privileged access to the anglophone and francophone worlds, and to the homelands of Canadians originating from every part of the globe, making up our multicultural personality;
- Canada has active memberships in the clubs that matter, including the G7;
- Canada is a non-colonial power, whose constructive multilateralism appeals to those nations seeking to build a new and better order.

All of this is of course true. But it says nothing about which assets we will require to deal with changing international governance, the transformation of power and influence, and the integration of the North American economy. What will be key in all of these areas is knowledge. We will need to know a lot more about the way in which international regimes interact, such as those dealing with the environment and trade. We need to know whether the current emphasis on re-engineering societies by means of highly intrusive, holistic strategies creates viable states. This is a relatively recent development, and the track record is spotty. We need to know more about the roles of states that act as regional stabilizers, or engines of growth, and what impact they have on their peripheries. We need to have a grasp of markets for trade and investment that integrates domestic economic and political factors with the projected impact of liberalization downstream.

That lateral thinking necessary to the understanding of complex global phenomena is possible only with the benefit of collateral intelligence and information gathering. We will be able to measure our effectiveness in achieving national objectives only through a much more sophisticated understanding of relevant impacts outside our borders. We need more research into such things as the size of Canada-based industry relative to globalized industry, what domestic jobs are associated with globalized firms, and how the activities of head offices relate to foreign subsidiaries in Canada.

Knowledge will be especially key to the management of an integrating North American economy. We need more research into the implications of integration for harmonization and convergence in areas that were exclusively domestic domains. We need research and analysis now so that we will be able to predict impacts in 2005. It will also be crucial to both risk assessments of domestic policy options, and to the negotiation of international undertakings. The management of rapidly increasing amounts of information, so as to permit quick analysis of relevant factors, followed by timely and informed decisions, will become the biggest challenge of governments and non-state actors alike. Failure here will raise questions about the relevance of governments in a globalized world.

While Canada has many traditionally recognized foreign policy assets, the key to our future relations will be the gathering, analysis and dissemination of information and knowledge. We must pay much more attention to this area.

It is through the collection and dispersal of information, and the development of knowledge about the nodal links connecting national interests to international developments, that we will accumulate sufficient assets to both engage domestic non-state actors and construct coalitions of the willing internationally. Inside and outside our borders, partnering with ad hoc interests on specific issues will require horizontal knowledge of key factors and flexible non-vertical management. The issue management typical of traditional vertical organizations will be ensured in these cases more through the use of soft power assets than through command and control. Success will be a function of pin-point knowledge, gained and shared.

In sum, none of the usual foreign policy assets enumerated in Canada in the World will be worth anything without mastery of the information revolution and its implications for our peculiar circumstances.

Canada's Role in 2005

Implications of Globalization

It is fashionable to claim that the greatest challenge facing Canada in 2005 is globalization. If by globalization we mean the increasingly integrated nature of economic systems made possible by the spread of technology and the information it carries, this is partly true. But there are two dimensions to globalization that are often left out of the equation. First, globalization is not solely about the way we make decisions. It also connotes interlocking global phenomena, such as environmental degradation, poverty, conflict, and migration. Secondly, globalization is not global. There are sectoral and geographic ghettos where globalization has yet to penetrate, and may never do so. We may find that one of the necessary by-products of globalization is increasing income disparity and the marginalization of a self-perpetuating under-class, both within advanced industrial societies and geographically in sub-Saharan Africa and elsewhere. Furthermore, globalization may come up against resistance even in the developed world. Manufacturing capacity may never be fully globalized, when some manufacturing assets are regarded as important national symbols. Both the Swedish and Italian car manufacturers should probably disappear, but they will not because of government intervention. Conversely, globalization in the financial sector faces no insurmountable obstacles at this time.

Since globalization, if it is to be self-sustaining, ultimately depends on the emergence of some sort of global "civil society", the appearance of ghettos is a worrying development internationally, just as it is in Canada. It may be that globalization masks a deeper contradiction, the full ramification of which is only now barely visible. Yet it is precisely the march of democratization, and the emergence of a global civil society with global interests, that must underpin the complex solutions to global challenges that have so far eluded the inter-governmental process. In the long run, the "planetary" interests of Canadians would be best served by a heavy investment in development assistance that seeks to foster civil societies in emerging economies. This would also serve to promote "globalization with a human face", and so help to counter reactionary movements that feed religious extremism or ethnic hatreds. As important, development assistance keyed more explicitly to civil society objectives would transform this traditional foreign policy instrument into a soft power asset.

Limits on Resources

With reduced resources, the government will have to define its international role in bold colours. Priorities will be determined partly on the basis of a better understanding of vital interests, and partly on the basis of political values that have domestic resonance. When measured by the traditional standards of military force, or international assistance, Canada's influence in the global community will gradually diminish relative to other nations. This can partially be re-couped through a smarter use of resources in both cases. A minimum high-intensity capacity will be required for somewhat lower probability high impact military missions. These can be expected once or twice a decade, which on the surface seems like a heavy investment in terms of returns. But we will need to be there when our vital interests are engaged, or when our principal allies (and trading partners) expect it.

When it comes to low intensity conflict where, almost by definition, our vital interests will not be engaged, we might be better to provide some mentoring and leadership rather than significant troop levels for what will be inherently high-risk operations. Research should be undertaken now into which low intensity conflict operations are possible, and where indigenous peace-keeping capacity can be engendered. We may find that, in any event, both NATO and the UN will be out of the peace-keeping business when it comes to providing command and control in 2005. Multilateral forces will be *de rigueur* when the interests of some of our major partners are engaged.

Focusing Spending

Though the impact of reduced resources on Canada's two principal foreign policy instruments can be deflected somewhat through smarter, more focused spending, their role will be affected by the emergence of a new instrument: soft power. Of course soft power and hard power are not mutually exclusive. We will be most effective when we combine the two, creating new-found synergy. Our standing on the international stage, and the view of our international role within and outside Canada, will have much to do with our ability to nurture and use our soft power attributes. These will include:

- an open civil society, talking to itself and to the world, with the technological capacity to do so;
- a society broadly familiar with world cultural products;
- governance that is less command and control, more centres of excellence (governance through attraction, as opposed to coercion);
- access to global networks and technologies,;
- the capacity to manage information, identify relevant factors, and match it with clients in a timely fashion;
- the horizontal coordination of state and non-state actors, domestically and internationally;
- lateral thinking.

Redefining Objectives

What kind of international objectives will we want to be able to accomplish in 2005? This will, to some extent, be determined by what we agree are our vital interests. But there may be other policy decisions that will be "defining moments", and hence largely political. One of these, as always, will be the decision about whether to acquiesce in the trend

towards greater integration with the USA, or to counter-balance American influence. On the basis of interests alone, the following is suggestive:

- to ensure that international perceptions of Canadian unity are well-informed, and that those perceptions reinforce the desirability for Canada to remain whole;
- to negotiate any further changes to the way the North American market is altered or expanded (FTAA, APEC) so as to protect Canadian share of the USA market;
- to use multilateralism, through the UN and elsewhere, to help marshal coalitions of the willing, or mediate views, on specific issues of interest to Canada;
- to play a leadership role in the run-up to, and negotiation of, the next world trade round;
- to put a domestic process in place that will enable Canada to deliver on targeted reductions in greenhouse gas emissions;
- to help coordinate pressure on regimes that are proliferators of weapons of mass destruction, either by commission or omission;
- to contribute to a multinational force set up to repel aggression by one state against another member of the international community, or to prevent conflict between large powers (India/Pakistan, South/North Korea).

Carrying out our Roles

What does this mean in terms of the machinery we will need, domestically and internationally? Canada's soft power is currently based on the moral authority we have accumulated over the past forty years, through such international actions as development assistance, peace-keeping, and the multilateral reconciliation of national interests. A more recent phenomenon, but no less important, is the incredible success Canadian culture has witnessed abroad. Most foreigners know Canada through its writers, actors, dancers, musicians, painters, and pop-stars, rather than through its political profile on various issues. We are also a country that harbours the last frontier and nature's last stand: a fact often more important to our interlocutors than to us. We need to find new ways to leverage our moral authority, our cultural expression, and our natural heritage, so as to influence better the way the pressure points in 2005 will be navigated.

There are some obvious roles for us, based on our soft power assets. These include the promotion of a multilateralist vocation in others, not least the USA. As a place where people want to live, and as digital transmission costs approach zero, we will attract more high quality labour and entrepreneurs. We have potentially a leadership role internationally on environmental issues, if we can get our domestic house in order. All of these possibilities depend on the domestic and foreign relations machinery working hand in glove. Environmental leadership abroad, including the creation of an "economic security council" for economic issues at the UN, will continue to elude us without environmental leadership at home. A Canada Council with an international mandate to rival the British Council would add substantially to our soft power assets. As globalization reaches its limits, we will want to work to ensure that foreign investment flows to Canada for both the productivity and lifestyle reasons important to executives.

Canada in 2005 will have to concern itself with international image management in a way that will make current efforts appear simplistic. First and foremost will be the need to move beyond the identification of messages to competition for air time, for "band width".

We will want to establish our own time horizon within which to present our views. Any discussion of Canada within a non-Canadian time horizon, or no discussion at all, will connote a loss of sovereignty. Soft power will be crucial not only to the mobilization of international resources for our international objectives. It will also promote and protect vital interests, including our prosperity and unity. By 2005, the management of information will have migrated from the periphery of our international role to its core.

Canada's Role in 2005 – Research Agenda

The following is a list of some of the more important, cross-cutting issues on which research will be needed to sustain policy development and policy responses over the medium term.

More research is required:

1. to determine the relevant and perhaps shifting weight of *interests and values* for Canadians. Which issues play to both galleries?
2. on which *emerging economies* will be key to the promotion of Canadian interests in 2005.
3. on how *soft power* can be deployed to our benefit in such areas as:
 - the perception of Canadian unity,
 - the attraction of foreign investment and skilled immigrants,
 - tourism,
 - multilateral security arrangements.
4. to identify potential high intensity conflicts where Canada will want to, or will be expected to, contribute.
5. into what multinational forces are conceivable without significant USA involvement.
6. into such things as the size of Canada-based industry relative to globalized industry, what domestic jobs are associated with globalized firms, and how the activities of head offices relate to foreign subsidiaries in Canada.
7. into the implications of integration for harmonization and convergence in areas that were exclusively domestic domains.
8. into which low intensity conflict operations are possible, and where indigenous peace-keeping capacity can be engendered.

2. The International Context

The times, they are a-changin' . . .

Bob Dylan, 1964; MBANX, 1996

The Issue

There was once a time when it would have been easy to write a paper on global trends by looking first "out there"; then deciding at how all that affected us "in here"; and finally identifying what we "in here" needed to do about what was happening "out there". That is no longer so easy to do – the lines between "out there" and "in here" have blurred. We are increasingly having to deal with a world that, in new ways which we have yet to fully comprehend and at a speed which often seems frightening, is both moving together and moving apart.

What is happening out there and in here? What are the main factors which are likely to influence Canada's vital interests and place in the world to the year 2005? How should Canada and Canadians position themselves to take advantage of these global trends, or to protect themselves against them?

Predicting the future, and setting policy accordingly, has always been a tenuous undertaking. Too often, what appears to be a permanent trend is transitory. For instance:

- The USSR's leading role in the scientific and industrial sectors, and its overall stability, appeared unquestionable a mere decade ago;
- The 1973 oil crisis seemed to presage a massive concentration of wealth in the OPEC countries; or
- A fundamental tenet of the US auto industry in the 1960s was that the North American market would never take to small cars.

Prediction may be folly, but the lesson of history is that previously dominant societies, economies and businesses have suffered or fallen when they failed to adapt to fundamental shifts in their environment.¹

Thus, while we cannot forecast the period ahead with any certainty, we can explore and extrapolate current trends and emerging possibilities, and thereby prepare ourselves to meet the challenges and opportunities that do materialize.

Broad Questions

What are the main trends that could make the period to 2005 significantly different from the immediate past? How are these forces and trends likely to affect the world and Canada's place in it? What do we know of the risks and uncertainties in this new world?

In the new, multi-polar world that has emerged after the end of the Cold War, new interests and new divisions between states are coming to the fore. No longer are countries constrained by the need to be allied with one side or the other of a bipolar global structure. At the same time as the shift to multi-polarity has taken place, other forces have been accelerating the trend toward globalization, which is manifesting itself through the convergence of:

- advancements in technology, with impacts on the economy, society and culture;
- the liberalization and deregulation of trade, finance and investment;
- a private sector that is no longer geographically rooted;
- the development of interest groups across borders;
- greater global consensus around standards of governance, particularly with regard to human rights; and
- a dramatic increase in the pace of change.²

Throughout the world, knowledge, information and technology are making a fundamental transformation in societies and the relations among them. These factors are affecting how individuals relate to each other, to their work and workplace, to their community, to their nation and to the world.

As if the above trends were not sufficiently complex, we face increasing concerns about possible events that may have low probability, but whose impact, were they to occur, would be very high. While our ability to anticipate what might happen is limited, even the imaginable is sobering:

- How prepared are the Government of Canada, provincial and municipal officials to deal with an outbreak of Ebola fever or other new contagious disease in a large urban centre?
- How would economies adjust to oil price increases that would result from a destabilizing incident in the Middle East such as the overthrow of the current Saudi regime?
- How could we respond to a crisis precipitated by nuclear or biological weapons in the hands of a rogue state or a terrorist group?
- What are the chances of further nuclear accidents in countries that are not maintaining adequately their aging nuclear power plants?
- What would be the impact on Canada and other borrower countries should an earthquake in Japan result in a massive recall of Yen to finance required reconstruction?

Most observers seem to assume that globalization will continue unabated through the next decade. As such, it is a central theme of this paper, not merely as a process, but as a defining force of the modern age. This requires us also to look at some of its impacts, which include:

- increasing polarization and marginalization that results from the benefits of globalization being distributed unequally within and between countries;
- changes in how we perceive threats to security. In addition to traditional political and military threats, there is growing concern about the dangers posed by environmental degradation, viruses such as HIV or Ebola, and increases in international crime; and

- the challenge to traditional power structures, both institutional, national and international, as countries and institutions find themselves facing issues they were not structured to address.

Globalization is not a single thing, and some global trends are far from irreversible? Are we paying sufficient attention to trends which could lead in the other direction?

- Trade protectionism is a strong theme underlying American politics, and there is concern about growing U.S. isolationism.
- Immigration rules are being tightened in many OECD countries, including Canada.
- Some parts of the world, most notably the Middle East and the Korean peninsula, are rather unstable. Any further increase in tensions could tip a precarious regional balance and draw in other players.
- The pace of demographic change in Canada and the U.S. is causing backlashes against some ethnic groups. Racially motivated disturbances are becoming more common in European countries;
- Public concern over the risks of importing infectious diseases are increasing.

Globalization is not new. Some would call it a defining trend of the 20th Century. Yet we should recall that between the tremendous expansion of trade and capital flows in the first decade of the century, and the current period of technology-driven globalization, was a forty-year period of reversal that included the First and Second World Wars and the great Depression. Is the trend of the 1920s and '30s, with greater concentration of wealth and a "me and mine" attitude being repeated?

As well as considering possible setbacks to the current trends toward globalization, we must also think about the potential consequences of acceleration in these global trends. What are the possibilities of a situation of "winner takes all" with regard to, for example, control of technology transfer?

Major Trends and Issues

Increasing Polarization and Marginalization

☐ There is a rapid generation of new knowledge and increasingly quick transmission of new ideas around the world, with a resulting "death (or at least diminution) of distance". New information superhighways have the capacity to bypass traditional regulatory frameworks. Tens of millions of Internet users by 2000 will make it even more difficult for societies to stay closed. Analysts have linked the fall of the Berlin Wall to televised scenes of protests in Tiananmen Square a few months earlier.

☐ International telephone and FAX traffic will have increased from 15 billion minutes in 1985 to 95 billion by the year 2000. Yet, half of the people in the world have still never made a phone call. The developing world has a "teledensity" of 5 telephone lines per 100 people while it is over 50 in industrial countries.

☐ While there are clearly many benefits from globalization, imbalances in access to knowledge and the scope and speed of changes in science and technology can have highly divisive impacts on societies and social structures that are less able to adapt to changes.

☐ The global economy is dominated by multi-national enterprises (MNEs) whose ambitions and activities are not confined by national borders or national interests. New

information technologies have made it possible for these multi-national corporations to become truly trans-national, with their competitive edge being derived predominantly from firm-specific assets.

□ Financial globalization has grown at a staggering rate, accelerated by the deregulation of financial markets in the late 1970s and the advent of new information technologies. The value of cross-border assets held by banks more than tripled between 1983 and 1993; global foreign exchange transactions, which have been estimated to be 80% exchange-rate arbitrage and speculation, are estimated at more than US\$1.2 trillion per day, amounting to more than 100 times the value of total worldwide trade in manufactures and services; and the stock of financial assets traded globally, thought to be US\$5 trillion in 1980, is forecast to reach US\$83 trillion (three times the GDP of all OECD economies combined) by the year 2000.⁴

□ A new cadre of skilled, independent and mobile "knowledge workers" is emerging. In the new economy, these problem-identifiers, -solvers and -brokers are seen as the new generators of wealth. However, with that independence and mobility comes less loyalty to a particular state and more willingness to go where the financial rewards are highest. At the other extreme are a growing number of low-skilled, immobile service workers, as well as the chronically unemployed and unemployable.

□ It is also evident that this accelerating polarization between "winners" and "losers" is occurring, both between countries and within them. Globally, between 1960 and 1991 the ratio of shares global wealth of the richest and poorest increased from 30:1 to 61:1, so that by 1991 more than 85% of the world's population received only 15% of its income. Yet the new communications technologies allow an increasing number of slum dwellers throughout the world to base their material aspirations on "Baywatch". A mounting resentment against the rich, be they individuals or chartered banks, is increasingly evident worldwide.⁵

□ At the same time, more and more countries and individuals are falling "outside the system", or are not even in the game. In 1993, Africa's share of world GDP was 1.2%. If the current negative growth rate continues, it would decline to 0.4% at the end of 2030. Its share of world trade is marginal and falling further as well.

□ Proponents of technology argue that it has the potential to enable developing countries to kick-start their economies, or in some cases to "leapfrog" the stages that developed countries went through. For example, two out of three phones in Cambodia are mobile, and Sao Paulo has more mobile phones than Paris. However, given still low adult literacy rates (35 percent in Cambodia) and low living standards, (in Brazil the lowest 40 percent of households receive 7 percent of national income) a more likely scenario, at least in the next decade, will be further polarisation.

The Changing Perception Of Security

"Conventional" Security

□ Global political and military security concerns dominated much of the 20th century. In recent years, great power competition has been based more on economic and political strength rather than military might. The United States is currently the only nation-superpower, but great power rivalry is likely to re-emerge early in the next century, with China being tagged as the most likely candidate to rival the US, both economically and militarily. While Russia's ability to rebound should not be underestimated, it appears unlikely that it will be able to re-establish its military might while struggling with major

economic challenges. The European Union, a growing economic powerhouse, continues to adjust to the political, economic and military consequences of the fall of the Berlin wall. Its military potential should also not be underestimated.

☐ There is much focus on the Asian economic miracle. At the centre of that transformation is China, which many analysts expect will have overtaken the United States as the world's largest economy by 2020. Will China's military power match its economic clout? How will other countries in the region respond to counter what they will perceive as a threat from China? There will continue to be questions about China's longer-term stability -- whether its authoritarian political structures will be able to withstand the effects of economic liberalization. The consequences of instability within China would be calamitous.

☐ While global conflict may be less of a threat now, the increase in regional wars carries enormous human and material costs. While the overt causes of many regional conflicts will continue to be ethnic or religious tensions, some analysts predict that, as pressures on resources increase, below the surface will be disputes over land and water. These tensions are currently most evident in the Middle East, where high population growth rates are accentuating pressures on natural resources. The proliferation of weapons of mass destruction, whether nuclear, chemical or biological, often reflects territorial or religious tensions, as evidenced in the tensions between Iran and Iraq, and India and Pakistan.

☐ Many Asian countries face growing population pressures, natural resource depletion and environmental degradation, as well as social and ethnic disparity that will create friction within their borders and may lead to cross-borders conflicts as well.

☐ In addition to long-standing unrest or civil wars in countries like India, Afghanistan, Rwanda, Zaire, Algeria, and Guatemala, we have witnessed the eruption of a brutal war in the former Yugoslavia. Few countries, including our own, seem immune from tensions associated with the desire of people to differentiate themselves based on ethnicity or religion.

☐ Civilian casualties of war are increasing. Also, the practice of ignoring of traditional rules of warfare is becoming more common, including the abuse of prisoners of war and the systematic use of rape as means to terrorize civilian populations.

☐ The danger of the horizontal proliferation of weapons of mass destruction persists and there are growing concerns about weapons sales to "rogue states" or terrorist organizations. Conventional security concerns will remain priorities, but increasingly security will be perceived in environmental and human terms. Failure to address these concerns, some of which are described below, threatens the sustainability of the planet.

Human Security

☐ In the year 2005 the world's population is expected to reach approximately 6.6 billion, increasing by approximately 1.5% annually. Approximately 80% of the people will be in developing countries.

☐ Over half of the combined population of developing countries is under the age of 24. This has major implications in terms of employment pressure on the environment, and urban and land-based tensions.

☐ In the 1950s, around 17% of the world's people lived in cities; at the beginning of the next century it will be around 50%. People are arriving faster than cities can absorb them,

creating huge and unmanageable urban sprawl. By the year 2000, seven megacities, five of which are in developing countries, will have populations over 15 million people.

☐ There are more than 125 million people living outside their own countries, many of them as refugees. At least 36 million people moved from developing to developed countries in the past 30 years. Approximately 1 million more join them every year.

☐ Recent events in Central Africa, where an estimated 640,000 people moved from Zaire to Rwanda over a two week period, show the human consequences, and the costs to the international community of political instability. A further half million Rwandans were ordered out of Tanzania by the end of December, 1996.

☐ Internal displacement is also a major phenomenon. Within China alone over 10 million people are on the move in search of better economic prospects.

☐ Close to a billion people are undernourished – one in five in the developing world overall, and over half of the population in seventeen African countries. Canada is not immune from the phenomenon of increasing hunger. From their beginning in 1981, the number of food banks has grown steadily. In 1994-95, the Canadian Association of Food Banks estimates that 456 communities had food banks. It is estimated that, in 1994, 280,000 children (and 420,000 adults) used a food bank once a month.

☐ Poverty, population pressures and unsustainable practices will result in further environmental degradation and resource depletion. By 2005 the world's rain forest will diminish by 46 million hectares – an area slightly larger than Sweden. This will have negative implications for biodiversity and climate change.

☐ While scientific and political debates continue, more natural and weather-related catastrophes are being associated with climate change. The level of concern is evidenced by a campaign launched by insurance companies in 1995 to pressure governments to take action. The insurance industry paid out US\$48 billion in claims in the period 1990 to 1996, compared to US\$14 billion in the entire 1980s. Where once the system could absorb these externalities, we will all increasingly have to pay for them.

☐ The commitments made at the Earth Summit in Rio de Janeiro in 1992 were laudable and necessary, but subsequent progress has been disappointing. Carbon emissions are still increasing. If global temperatures edge up as predicted, rising sea levels will affect coastal megacities, including Vancouver, London, Tokyo and New York. A new bridge will be required to join two Prince Edward Islands.

☐ Loss of biodiversity due to destruction of habitat is continuing, with 50 species a day disappearing. It has been estimated that by 2020, 10 million species will be extinct.

☐ The World Bank has already noted that chronic water shortages affect 80 countries with 40 percent of the world's population. In addition to negative impacts on human well-being and economic productivity, such shortages can also be the cause of conflicts, as is well evidenced in the Middle East and elsewhere.

Challenges to Traditional Power Structures

☐ The trends outlined above are extremely complex and have wide-ranging consequences. Yet as the imperative to address these challenges or mitigate some of their effects is mounting, there is a crisis of confidence in the ability of existing institutions and power structures to do so.

☐ For several hundred years the nation state has been perceived, at least in the western world, as the primary unit for security, economic and social policy. Other levels of

government and civil society have been largely defined in terms of national boundaries and seen as existing in a subordinate or symbiotic relationship with national governments. Periodic experiments with transborder cooperation have been evolved primarily through negotiations among nation states. That concept of the nation state is under increasing attack from the growing global tendencies toward integration and fragmentation.

☐ The decreasing financing capacity of nation states raises questions about their legitimacy. Questions over how best to address particular issues leads to pressure to devolve power and authority to other levels of government, to the private sector, or to civil society. Increasingly, the state is seen as either too large or too small to address many of the challenges societies face.

☐ While it is probably premature to mourn the death of sovereignty, it is increasing evident that many vital issues are cross-boundary and require a concerted international approach. Key among these are climate change, organized crime, the spread of infectious diseases such as AIDS and tuberculosis, currency crises and the movements of refugees. While some multilateral economic and specialized technical agencies retain a high profile (e.g., WFO, UNICEF), the current global governance structure overall, which has evolved incrementally over the past half-century, appears not to have the scope to address increasingly complex and interconnected issues. Nor does the international community share the will or the vision to make it more effective.

☐ Canada made a significant contribution to building the post-war structure of institutions to deal with cross-boundary issues. These institutions have played an important role in ensuring a rules-based multilateral system, which has been important to a "middle power" such as Canada.

☐ The mobility of capital and the increasing volatility of financial markets will require both further development and closer adherence to international rules of the game, with a greater emphasis on policy coordination and cooperation both between and within states. There is a danger of excessive policy competition to attract investment, and of competitive deregulation that could have negative environmental and social consequences. Events such as the 1995 collapse of the Mexican peso, which resulted in the loss of \$10 billion in U.S. investments, and necessitated a US\$30 billion bailout package from the donor community, have focused the attention of organizations like the G-7 on the need for new rules of the game.

☐ A major consequence of the current phase of globalization is that national economies are responding less to political direction and control, as the strength of international goods and capital markets exceeds that of individual governments. Nevertheless, citizens continue to look to their governments to turn the "new world economic order" into local economic benefits, and to mitigate any negative effects. Demands for equity are on the increase, in part because of greater access to information, but these demands are directed to states that are reducing their functions and are increasingly seen as instruments for adjusting the national economy to the exigencies of an expanding world economy.⁶

☐ The changes in the multilateral system and the increasing linkage between international and domestic issues places a greater premium on ensuring consistency in policies and international positions from one issue to the next or from one forum to the next. This demands better coordination within the domestic policy-making environment, including more informal horizontal work inside governments and more sharing of basic information.

☐ There is mounting evidence, in many countries, that the current pace of change, coupled with recent economic difficulties, is provoking fears, a lower tolerance of

uncertainty and the desire to go back to the safety of the "good old days". Historically, people have been prepared to sacrifice in order to guarantee better times for future generations. That faith in a better tomorrow appears to be fading.

☐ At the same time as people are recognizing the limited power of states to address global issues, technology is providing new opportunities for people to join national or transnational social movements (e.g., Greenpeace, Amnesty International) that focus on specific interests or issues. This growing importance of non-state actors cannot be underestimated -- many facets of civil society are now demanding and obtaining their say.

☐ The trend to "subgroupism,"⁷ is also gaining strength. This is defined as the development of deep affinities among people for associations, organizations, and subcultures with which they have been historically, professionally, economically, socially or politically linked and to which they attach their highest priorities. While strengthening links among individuals, this tendency can also be seen as the result of alienation from the performance of the whole social and political system in which the subgroup is located.

☐ The current decline in consumption in North America and other developed countries, while tied to the demographics of an ageing population,⁸ is rooted in part in consumer insecurity. Peoples' sense of security requires more than a steady income. It requires stability and an understanding of the individual's immediate environment. As a general rule, the extent to which change is welcomed depends on the level of confidence that the individual can successfully manage the change, gain in the process, or at least not suffer. Accordingly, change that benefits large numbers in the early stages will generate support for further change, even among those who are still observers. Conversely, change that first causes prolonged hardship will generate resistance.

Challenges and Pressures

Human progress is a process of dealing with circumstances and making choices. Despite the seeming inevitability of certain trends, the future is not predetermined. Yet, policy makers have to understand underlying shifts, and whether they are transitory or permanent, in order to ensure informed choices and responses. The issue for Canada today is, where do we have the scope to be proactive, and where must we act to ease the process of adaptation?

The following are some of the key issues or questions that require further consideration:

Has adequate research been undertaken regarding the factors that could shift or derail the current process of globalization, and the consequences of such a change?

Globalization, and a more stable international environment, are changing the way assets such as knowledge, skills, flexibility and mobility are valued and rewarded. What are the implications?

- We know the positive sides to technologies and the knowledge-based economy as a whole. But are we using and adapting our data-gathering instruments to understand the revaluation and distributional effects of economic globalization? Can we profile the rate of diffusion of technologies among different quintiles of the population? Can we look outside our borders and understand the depth to which these trends penetrate global society?
- As these reevaluations are in process, how do we ensure that unpaid work is not further left out? The UN estimates that in addition to the \$23 trillion in

recorded world output in 1993, household and community work accounted for a further \$16 trillion. Women contributed \$11 trillion of this "invisible output."

How can countries best position themselves for the future? If globalization continues along present lines, where will it lead the global community and societies within it?

- There is a growing body of literature on how to make one's society more competitive technologically and industrially, which proposes:
 - increasing national savings rates and cutting budgetary deficits which drain funds from productive investment;
 - enhancing the level of commercial research and development;
 - avoiding the diversion of too many resources to the military;
 - escaping from a business culture that has become too dependent upon Wall Street's expectation of short-term profits;
 - focusing on making well designed, reliable products for the world's most demanding markets;
 - vastly improving the levels of skill and training among the work force at large and providing opportunities for thorough retraining; and
 - raising educational standards, especially for those not going to college.⁹
- If policy-makers agree with these directions, what levers and resources do they have to implement such changes? How can the pace and structure of public policy-making be adapted to keep up with the pace of change? How can we best address the constraints of continued sectoral approaches to cross-cutting issues and themes and to jurisdictional boundaries according to which other levels of government have responsibility for issues of importance to the national economy and prosperity, such as education and training.

What evidence is there that technology can "kick-start" the developing world?

- It was once thought that physical capital was the "missing ingredient" for the developing world. Current arguments about technology and knowledge as ingredients for economic "takeoff" seem to have replaced the earlier view. What this misses, however, is the key role played by institutions, governance and "social capital". While the latter are certainly less easy to conceptualise and manipulate, we cannot avoid their crucial importance in both developing and developed countries.

Are our economic and comparative arrangements adapted to a globalized world?

- A key objective of the post-war economic model was full employment. Not only are we very far from that, but job growth is increasingly occurring in temporary, part-time and informal areas of work. Unemployment and underemployment have a negative impact on consumption. Can consumption still play a major role in economic growth, given environmental concerns, lack of consumer confidence, debt-loads, demographic trends, and the increasing polarisation between rich and poor?
- The current multilateral system is the result of post-World War II experimentation with new types of structures in which nation-states could address trans-border issues. Now there are experiments with many smaller "minilateral" or regional groupings (NAFTA, EC, ASEAN), in part due to the complexity of issues being faced. With "borders" on the US, the Pacific Rim, and the European community, what are the implications for Canada of being increasingly "minilateral"?
- By contrast, there are also increasing arrangements by common interest rather than geographic regions (e.g. Cairns Group dealing with trade in agriculture). Experience has shown that organizations have been most effective when the need to cooperate is clear (e.g., NATO, UN specialized technical agencies). How can the "interest" groupings complement "minilateral" arrangements?

How should we adapt the interface between governments and civil society?

- The tremendous challenges facing the nation-state, due in part to its decreasing financing capacity, raise questions of its legitimacy. There is increasing experimentation regarding to the appropriate units to address particular issues, and pressures to devolve from the national to other levels of government, as well as to the private sector and civil society. What are the lessons being learned? Is there sufficient monitoring and analysis of changes in Canada and elsewhere on the results of these experiments?
- What now defines a country or nation? Many of the historical, and economic ties that forged national boundaries and identity are weakening. How will Canada define itself in the future?
- It will become increasingly important to educate the public on global economic issues and on their effect on lives and livelihood. This would also lead to a better understanding of the roles that different institutions and sectors can be expected to play. An informed debate on international issues is also a prerequisite to delegation of sovereignty. Co-ordination on key cross-border issues is vital, and in turn requires accepting that more and more decisions will have to be made at the international level.

In his book *Preparing for the Twenty-First Century*, Paul Kennedy points out that "Social thinkers from Wells to Toynbee have repeatedly argued that global society is in a race between education and catastrophe . . ."*. Is there still time to prevent catastrophe from winning?

The International Context – Research Agenda

- ☐ Factors that could derail the current process of globalization, and the consequences of such a change?
- ☐ Implications of the globalization, and the more stable international environment, which are changing the way assets such as knowledge, skills, flexibility and mobility are valued and rewarded.
- ☐ How countries can best position themselves for the future.
- ☐ Where globalization will lead the global community and societies within it if it continues along present lines
- ☐ The evidence for whether and to what extent technology can "kick-start" the developing world
- ☐ Whether our economic and comparative arrangements are well adapted to a globalized world
- ☐ How we might adapt the interface between governments and civil society



Notes

- ¹ A relatively recent and simple example is that of the Swiss watch-making industry, which, having invented the digital watch, dramatically underestimated its market potential. It is still recovering from the consequences.
- ² The diffusion of economic power has also made the "developing country" label too generic, especially as it applies to China, India, Brazil, and the "Asian Tigers". At the same time, most of the world's poor are located in the first three countries.
- ³ Bill Gates' Microsoft desktop operating systems are found in approximately 85% of all personal computers. Gates' personal net worth is estimated at \$24B, and he is reported to earn \$30M per day.
- ⁴ Charles Oman, "The Policy Challenges of Globalization and Regionalization," OECD Policy Brief No. 11, p. 13.
- ⁵ The December 1996 takeover of the residence of Japan's Ambassador to Peru by the Tupac Amaru Revolutionary Movement, and the resulting hostage taking, is a high profile manifestation of such resentment and a reminder of the challenges of predicting and preventing such acts.
- ⁶ The CBC/Macleans 1996 Year-End Poll revealed that 76% of Canadians thought no federal party had concrete solutions to the nation's major challenges, key among them being unemployment.
- ⁷ James Rosenau, "Security in a Turbulent World", *Current History*, Vol. 94, No. 592, May 1995, p.195.
- ⁸ Paul Kennedy, *Preparing for the Twenty-First Century*, Harper Collins, 1993, pp. 339-40
- ⁹ *Ibid.*, p. 338.

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3. Canada-U.S. Relations

The Issue

Canada's relationship with the U.S. has long coloured almost all aspects of economic, political and social life in Canada. As economic development and technology bring down barriers between countries and make them increasingly interdependent, these global trends are magnified in the Canada-U.S. context. The coupling of these global forces with the traditional close ties between Canada and the U.S. in areas such as foreign policy and the long-standing defence partnership dictate that the relationship between the two countries will have a profound influence on Canada's outlook in the year 2005.

At the same time, the grossly unequal balance of economic size between Canada and the U.S. means that the effects of interdependence between the two countries are felt far more keenly by Canada than by the U.S. While the U.S. is clearly subject to globalization pressures as well (and to an increasing extent), Canadian influences on the U.S. are far more modest than U.S. influences on Canada, whether on trade, culture or defence issues. Distinctive Canadian approaches, where they exist, draw increased pressure from the U.S.

Mexico has been increasingly feeling these same pressures since joining the NAFTA. Although this paper does not address the Mexican experience, the different culture and stage of development in Mexico will result in more dramatic adjustments taking place in that country. Some of these changes can be expected to have relevance for the Canada-U.S. relationship, particularly in areas where Canada and Mexico may share similar goals.

Trends And Developments

Globalization has removed many of the forms of protection used by countries to pursue independent economic, cultural, social and security policies. The removal of barriers has made competitiveness on a global scale more imperative, which has in turn fueled demands to integrate markets, standards and policies. In reaction to this trend, countries have developed stronger international rules and pursued common goals multilaterally. The overall effect of these developments will be to constrain the independent fiscal choices and policy options of governments.

These various forces, described in greater depth below, will shape the Canada-U.S. relationship in the coming years. While they will be felt to varying extents by all participants in the global economy, Canada, with its unique position in relation to the U.S., will feel many of them sooner, and more intensely, than others.

Drive Towards Competitiveness

In ways that they never have before, economic considerations will increasingly drive the policy and social agenda. As traditional border protection measures (both tariffs and non-tariff barriers) between Canada and the U.S. are eliminated, domestic policies that impact trade and competitiveness will come under closer examination. Pressures on these policies will come not only from the U.S. and other trading partners, but also from

industries within Canada demanding the removal of restrictions impairing their ability to compete at home and abroad.

These battles will be fought primarily in a North American context, as more and more industries operate on a continental basis. This will affect not only economic policies such as taxation, financial market regulation, and competition policy, but increasingly "non-economic" policies as well, such as those in the social, cultural and environmental areas.

Pressures Towards Integration and Convergence

Economic Integration

The FTA and the NAFTA were critical steps in the Canada-U.S. relationship, and have greatly accelerated the pace of economic integration between the two countries. Demands for the removal of remaining restraints on competitiveness will create continually increasing pressures for integration and convergence in almost all sectors, but will generally be led by the more rapidly growing sectors of the economy. The trend of Canadian and U.S. companies to adopt North American business plans for their operations will continue, and these industries will press to have the same or an equivalent regulatory environment on both sides of the border. Emphasis on knowledge-based industries will also focus attention on education and labour mobility issues between Canada and the U.S.

As barriers to investment fall, tax-base differentials will assume greater importance for companies choosing where to locate their operations. Marginal tax rate differentials will continue to be a concern, but overall Canadian taxation levels are not out of line when adjusted for the provision of services paid for separately in the U.S. Although targeted tax cuts may take place on both sides of the border, across-the-board cuts are unlikely.

Policy Convergence

Pressures towards harmonization, or at least mutual recognition, of standards and policies will be evident in virtually all sectors but particularly in the food, transportation and environmental areas. However, despite the overall trend, the pressure towards integration will be resisted in some sectors. With respect to health policy for example, present Canadian policies and programs provide equivalent or superior health care coverage for all Canadians at a lower overall cost than in the U.S. This is a significant gain for Canadians in terms of human welfare and an important competitive advantage. Similarly, in the culture area, there will continue to be pressure within Canada to resist integration. While Canada will have difficulty restricting U.S. inroads, the rapid advancement of technology in the media sector will offer opportunities for Canadian advancements in this sector.

Foreign Policy

Closer economic integration with the U.S. can be expected to have an important impact on Canada's ability to project an independent foreign policy. Other countries may perceive that the close economic ties between Canada and the U.S. preclude Canada from taking positions on international issues that are distinct from those of the U.S. Even more importantly, Canadian recognition that the U.S. could draw linkages between Canadian economic interests in the U.S. market and other areas of foreign policy could constrain Canadian willingness to pursue an independent course.

National Defence:

Canada's long standing defence partnership with the U.S. has been central to the relationship as well as to our security and well-being, and will continue to be so in the

years ahead. The Canadian Forces will need to remain inter-operable with their U.S. counterparts, whether in NORAD, NATO or as part of coalition or peace operations. If they are to be successful, Canada, the U.S. and other allies will need to approach global security challenges, such as proliferation, in a coordinated fashion. There are also opportunities for Canada and the U.S. to cooperate in the high-technology defence sector, building on the network established over many years by the Defence Production and Defence Development Sharing Arrangements

Natural Resources

Canada and the U.S. share a long border and have a shared interest in moving towards common resource management policies. Because of the proximity and the patterns of urbanization and industrialization, development close to the border has a profound effect on the quality of life on both sides, specifically with respect to air and water. U.S. sources account for over 50 percent of Southern Ontario's smog and 70 percent of the pollution entering the Great Lakes. A separate but related issue is the sharing/diversion of resources, which applies to fish that migrate back and forth (e.g., Pacific salmon), but also to water (i.e., quantity as opposed to quality). Some elements in the U.S. will continue to eye our greater water abundance.

Border Management

The movement to a facilitative border system is being driven inexorably by NAFTA, economic imperatives and the associated dynamic growth in goods, vehicular and people movement. The practicalities of moving from a control to a facilitative border system to deal with the increased border traffic will require work on a number of inter-governmental agreements dealing with enforcement powers, recognition of visa issuance procedures etc., as well as increased attention to transportation infrastructure.

The border will not disappear but it will become less obtrusive, not only to business but also for consumers. However, the border will need to be managed so as to provide for targeted control over the movement of drugs, criminals and terrorists, both within North America but particularly into our countries from high risk areas. The perceived reduction of sovereignty associated with a more open border could be increasingly difficult to deal with, particularly as it relates to sensitive issues such as enforcement of gun control in Canada, and concerns of both countries about border enforcement with respect to terrorism, drugs, money laundering, and other criminal activity. NORAD provides a useful model for effective cooperation in this regard, as witnessed by successful operations in recent years against narcotics smugglers attempting to penetrate North American airspace.

A Rules-Based System with Growing Multilateral Influences

The FTA and NAFTA introduced stronger rules into the bilateral relationship, and the Uruguay Round of GATT negotiations represented a similarly important shift with important implications for the Canada-U.S. relationship on the multilateral level. Other initiatives currently being discussed, such as FTAA, APEC and NAFTA expansion will also contribute to this trend. All of these international agreements will focus increasingly on areas not previously covered by trade rules (including "new" economic areas such as services, but also areas such as the environment, labour standards and consumer awareness).

Despite this trend, increasing U.S. concerns about loss of sovereignty through membership in these agreements can be expected. U.S. trade unilateralism and protectionism will remain, and, depending on the U.S. economic situation and domestic U.S. politics, may worsen. Inevitably, U.S. unilateralism will be frustrated by the need to work with partners to address international issues effectively in a globalized world. U.S. misunderstanding of the new reality will generate strains in its international relationships

(e.g., Helms-Burton Cuba embargo and Iran/Libya sanctions legislation). In the private sector, as most domestic industries in the U.S. grow increasingly integrated into global markets, they will be more likely to use their considerable influence to press for open markets rather than protectionism. Other more protected industries will find fertile ground for efforts to continue to restrict trade.

At the same time, the U.S. can be expected to experience continuing frustrations with international political organizations such as the UN, particularly if its views on internal reforms are ignored. These tensions may increase as the U.S. sees its ability to exert its power in these structures diminishing relative to the influence it can wield unilaterally as the only world superpower. Increased integration with the U.S. may have an impact on Canada's ability to put forward an independent view in international organizations. Canada could be increasingly perceived by other countries as a "stalking horse" for the U.S., and closer economic ties with the U.S. may lead to questions, internally and externally, about Canada's ability to follow an independent course.

Canada will be confronted with the task of dealing with a myriad of plurilateral and multilateral organizations and shifting alliances. While the move towards a more rules-based system benefits middle powers and trading nations such as Canada, it will be important to ensure that these rules are developed in ways that meet our needs. A particular pressure point will be culture, where international rules will conflict with Canadian efforts to resist the forces of cultural homogenization from the U.S.

Limited Fiscal Flexibility

Disciplines imposed by international financial markets will allow little room to maneuver on domestic fiscal and monetary policies. Increased rates of government spending or departures from conventional policies will be strongly discouraged. While the Canadian federal deficit will be eliminated several years before the U.S. federal deficit based on current forecasts, the integration of the two economies and the demands of global capital markets on both countries make it unlikely that Canadian policy will diverge from U.S. policy except on the margins - assuming the U.S. itself pursues reasonably sound policies. Social tensions, particularly in the U.S., will be exacerbated by continued efforts to realize fiscal savings and limited capability to introduce new forms of social assistance.

Both Canada and the U.S. will face significant challenges with respect to intergenerational transfers of wealth as the "baby boomers" begin to move into retirement years and withdraw from the workforce. This will place considerable strain on the viability of pension plans, and increase the costs of social programs, particularly health care. Although the situation faced by the two countries in this regard is similar, different responses would have significant implications for the relationship, economically and socially. Canada will need to closely monitor the direction of U.S. thinking on these issues, and maintain close consultations with policy-makers.

In areas such as defence, there may be increased opportunity for Canadian leadership on issues like peacekeeping as the U.S. reduces its military budget and focuses its attention on its vital interests. As in the past, the U.S. expects Canadian participation in activities it considers to be global priorities.

Constraints on Policy Options and Political Leadership

The above factors will combine to leave governments with an increasingly narrower range of policy options. The detail and complexity of the various channels for intergovernmental cooperation will defy attempts to manage or control these processes in a direct manner. There will be more and more informal understandings, MOUs, working committees etc. which will operate between small units of the governments in the two countries, without formal central control. Indeed, this is already the case in the area of defence, where informal cooperation extends across a wide spectrum of activities, and with some NGOs

in cases such as professional associations negotiating agreements for mutual recognition of qualifications. Of particular concern to Canada, the strength of north-south integration could weaken internal cohesion and our negotiating position vis-à-vis the U.S. unless there are compensating internal arrangements.

These factors will reinforce a trend toward more corporate, consensus-building political leadership and away from the direct exercise of central authority. Forging links with other countries sharing similar goals on particular issues, or developing links with state governments, NGOs, and industry in the U.S. will be increasingly important. The direction of politics in the U.S. will also be important to monitor. While both countries seem to be gradually moving towards the right side of the political spectrum, divergences between the two could create tensions.

By virtue of its still-disproportionate power, the U.S. be the only country capable of projecting power in the traditional way. Concern about the weakening of this ability may lead to increasing pressures for unilateralism. This collision of political and economic interests suggests an uneven and occasionally bumpy relationship between Canada and the U.S. This friction could spill over into the security and foreign policy realms as well, especially if Canada's views on global events and challenges differ markedly from those of the U.S.

Domestic Impact

Competitiveness

In the interests of maximizing the global competitiveness of Canadian firms, Canada will have to reform or move towards convergence of policies with the U.S. in the economic sector. As well, the cost and nature of Canada's social programs will need careful appraisal in the years ahead. Increased pressures for competitiveness will focus attention on vulnerable, protected sectors in the Canadian economy such as cultural industries. Canada will pay an increasingly high price for national unity difficulties, regional policies, provincial barriers to trade, and protected sectors of the economy.

Integration and Convergence

There is nothing the federal government should (or, in many cases, could) be doing to contain integration in most areas. Those sectors least sensitive to integration as well as those sectors which stand to gain the most will complete the effort towards harmonization of standards and regulations first; others will move towards a combination of mutual recognition and harmonization over a period of time; and some sectors will continue to resist any moves in this direction. Canada will have to make significant and rapid progress on removing barriers between provinces and strengthening the internal Canadian market. If Canada is not seen as a single economy or market, Canadian companies will continue to be hindered from establishing a larger presence within Canada. The resulting north-south focus would weaken federal ties and exacerbate regional tensions.

Canada will also find it more difficult to follow an independent course on foreign policy, as real or perceived economic repercussions in the U.S. become associated with not following the U.S. line. Finally, as the U.S. proceeds with plans for some type of missile defence system, Canada will be under increasing pressure to participate.

Expanded Rules and Multilateralism

Canada will largely benefit from increased reliance on rules in its dealings with the U.S., as this will serve to counter protectionist impulses and enhance the security of access for Canadian industries operating in the U.S. market. However, operating in a more rules-based environment will increase the pressure on sectors operating outside the rules or

with policies that are inconsistent with globalization and trade liberalization. In Canada's case, this means that certain policies protecting less competitive areas of the economy will be increasingly costly to defend. Canada will also be under increasing pressure, either overtly or implicitly, to follow the U.S. lead in international organizations and activities.

Fiscal Constraints

Greater discipline will be imposed on both Ottawa and the provinces when unsound fiscal and monetary policies are pursued federally or provincially. This should have positive economic benefits in the form of low interest payments and low deficits. The reduced flexibility, however, will make it more difficult to respond to demands, whether political, social or military. Of particular concern in this area will be the impact on pension plans, health care, and other social programs that will come under increasing stress as the population ages and the proportion of the workforce to total population begins to shrink.

Policy Constraints

It will be difficult for Canadian governments to keep up with the pace of change at home and abroad, let alone exercise a leadership role. The complex and diverse alliances that will be necessary to influence events will require alterations in Canadian government processes and structures. The increasing propensity of Canadian provinces to negotiate and manage transnational agreements with U.S. states will lead to increased demands for a seat at the negotiating table. This will lead to greater demands for management responsibility of 'bilateral' issues. The federal government will find these demands increasingly difficult to refuse. An independent Canadian foreign policy may also be increasingly difficult to pursue as the multitude of economic and agreement links with the U.S. become deeper and stronger. Enhanced efforts will be required to ensure that Canadian values and cultures are projected domestically and internationally.

Opportunities And Challenges

Competitiveness

The U.S. market is the main focus for global economic competition, and Canada's proximity to this market provides it with a relative advantage over other countries. As well, integration and success in the U.S. market can be effectively used by Canadian industry as a "springboard" into the global market. The advantages of proximity and special access to the U.S. allow Canadian industry to reach global standards of competitiveness, as well as gaining the critical mass to penetrate other markets. If Canada wishes to become more competitive on a global scale, the most effective way to accomplish that goal remains to orient the Canadian economy to the demands of the U.S. market. In the same vein, Canada's exports are more heavily weighted towards primary resources outside of the U.S. market. It is continued (and ideally ever-improving) access to the U.S. market that is the biggest boost to Canada's value-added industries.

However, once a high degree of integration with the U.S. is achieved, the growth Canada has experienced during this transition could effectively slow down or cease as the creation of new or improved opportunities in the U.S. market no longer occur. Canada will need to ensure that it focuses increasingly on non-U.S. markets as this point approaches. While increased integration into the U.S. market offers many opportunities for improving Canadian competitiveness, the market forces are uncompromising. Canada has lost ground to the U.S. in some areas such as manufacturing productivity, and the Canadian industry and labour market seem to adjust more slowly to structural changes than those in the U.S. These areas need to be addressed. The focus on competitiveness may also create additional strains if it is not tempered by social policies that cushion its impact on those elements of society less able to cope in such an environment.

Integration and Convergence

As integration and/or policy convergence diminish the importance of the Canada-U.S. border, it will be important to ensure that industry and investment continue to see the benefits of locating in the Canadian market. To counter the tendency of firms to locate in the U.S., we will need to encourage the development of clusters in Canada which have sufficient critical mass to be largely self-sustaining and capable of operating in the U.S. market from a Canadian base. We will also face politically difficult choices, particularly on a regional basis, as we are forced to carefully target those limited investment incentives we can still afford. Of at least equal importance will be the state of infrastructure and educational facilities in Canada supporting the development of industries (such as the growing knowledge-based industries) and, of more general importance, the issue of lifestyle benefits.

Openness between Canada and the U.S. to the exchange of information, compatibility of systems and unrestricted movement of labour will be critical. Such openness already exists on defence issues and should be extended to other areas. These factors hold particular value in the culture sector, where opportunities will exist to build on Canada's communications infrastructure and expertise.

Opportunities to harmonize standards, codes and safety regulations in areas such as the transportation and food industries will offer improved efficiencies for Canadian industry. The challenge, of course, will be to preserve Canadian standards where they offer advantages to Canada.

Canada's traditional pursuit of a values-based foreign policy may be more difficult to maintain as the economic relationship becomes more intertwined. Canada's experience in responding to the U.S. Helms-Burton initiative to restrict trade with Cuba is a current illustration of this tension. On the other hand, recent Canadian efforts such as those in Haiti and Zaire show that Canada can also play an important and constructive independent role internationally.

With respect to management of the border, the challenge will be to pursue greater information sharing, cooperation and policy harmonization in order to achieve the dual objectives of facilitating movement by bona fide visitors, while improving protection against those engaged in drugs, money laundering, crime or terrorism.

Expanded Rules and Multilateralism

With more international rules and stronger multilateral institutions in place, there will be increasing opportunities for U.S. multilateral engagement and for pursuing Canada-U.S. agenda items in the multilateral context. There will also be more occasions for collaborating with the U.S. to jointly advance a shared multilateral negotiating agenda.

In any multilateral negotiation, our posture will invariably be designed with the enhancement of the bilateral relationship in mind, whether through pursuit of outcomes that seek to deepen the commitment of the U.S. to multilateralism generally, or whether it is in search of particular outcomes that reflect our agenda with the U.S. on issues such as trade, peacekeeping, weapons proliferation, drugs, and crime.

Ways of keeping the U.S. engaged on the multilateral level need to be explored. Avenues to be looked at include: effective ways of applying lobbying pressure (including alliance-building with liberalizing U.S. interests and with like-minded WTO members); use of exemplary models (e.g. trade remedies in the Canada-Chile FTA); and how to make initiatives like the FTAA and APEC realities. At the same time, we will need to be selective and make informed choices about multilateral avenues or institutions that are of the greatest direct use to us, those that are worthwhile for their impact on U.S. behaviour, and those that are to be considered lower priority.

Fiscal Constraints

Proportionally higher government spending in Canada than in the U.S. has contributed to deficits, but has also allowed for superior infrastructure and the development of effective policies in areas such as health care and the environment. Deficit reduction must not take place in such a way as to provide U.S. business with an infrastructure advantage. This will be a challenge for both Canada and the U.S. as existing infrastructure such as road networks continue to deteriorate, and pension plans and social programs come under increased stress as the population ages. Opportunities will arise for pursuing Canadian advantages through a distinctive Canadian approach as both countries select the paths they will follow.

Further study should be undertaken on how Canada might take advantage of being able to deliver considerably better (and more numerous) services with only a marginal tax premium over the U.S. if Canada eliminates its deficit prior to the U.S. Ways in which social policies could be more carefully designed to incur minimum cost while encouraging maximum participation in the economy should also be explored in greater depth. Canada will need to eliminate work disincentives and focus its efforts on training, especially that geared towards increasing the qualifications of former welfare recipients.

Policy Constraints

The key challenge on the policy and governmental side will be to maintain maximum flexibility and responsiveness to respond to a quickly changing economic security and social environment. The evolution of political leadership will require a review of existing structures and mechanisms to ensure their adequacy for the management of a Canada-U.S. relationship that, to an ever-increasing degree, is going to bear profoundly on issues previously regarded as being purely domestic. While the presence of international rules and pressures can be useful in advancing difficult issues, claims by governments that their "hands are tied" may lead to questions about the effectiveness of political representation and the loss of sovereignty.

In terms of its defence posture, Canada will continue to face a clear choice: cooperate with the U.S. in the defence of our territory and approaches, or let the U.S. do it on their terms, with all that this approach implies for Canadian sovereignty. Internationally, Canada will face challenges in distinguishing its foreign policies and posture from those of the U.S. in the eyes of other countries, and this may create ongoing tensions. On the positive side, opportunities will continue to exist for Canada to play a role as a valued ally and to provide assistance in addressing international problems, which can be rewarding for the bilateral relationship.

The other key challenge will be within Canada, as we explore ways to maximize Canadian advantage in the face of proliferating formal (or quasi-formal) sub-federal-level contacts (on the part of provincial and municipal governments, NGOs and private sector associations) with their U.S. counterparts. While control of these relationships will be beyond our capability, initiatives such as greater information sharing, increased awareness of objectives, and better representation of sub-federal interests by federal departments constitute enormous management challenges in the years ahead.

Canada will need to ensure it can exercise effective political leadership in its relationship with the U.S. on at least four fronts:

- working with the provinces and Canadian industry and NGOs to formulate and promote objectives in the U.S.
- in terms of trade, participating in plurilateral and multilateral organizations and informal alliances to press for shared objectives, either with the U.S. or in an attempt to counterbalance its influence. Canada will need to ensure U.S. involvement in multilateral rather than bilateral relationships (APEC, FTAA, NAFTA expansion), and may increasingly find it useful to explore possible

alliances with similar resource-based economies (Australia, Russia) on specific issues,

- attempting to influence U.S. policy directly, not only with the U.S. Administration but increasingly with state governments, industry, and NGOs,
- ensuring that the Canada-U.S. defence relationship remains healthy and vibrant, and that the U.S. maintains its leadership role in meeting global security challenges over the coming decade

Canada will also have a considerable challenge in managing politically sensitive issues in areas like culture that are under increasing attack. In this regard, continuing technical advances in the media sector offer opportunities for the development and promotion of more Canadian productions.

The State Of Knowledge

In the future, we will need to know more because we will be able to control less. Because we will be operating in a rapidly changing economic and social environment, effective policy will have to predict trends and influence tendencies as far in advance as possible. While the scope of policy flexibility may be more limited, competitive pressures in the international marketplace will be considerably more intense and industries will be more mobile to the extent that only minor changes in policies or government initiatives will be enough to affect the movement of capital, investment and skilled labour between countries. Countries with the most innovative and progressive policies, and the superior infrastructure, educational support and lifestyle will reap the benefits. Investment in advanced technologies will also be important.

Despite the trend towards increased integration, it should be noted that continued movement in this direction is contingent on general political support, or at least acquiescence, from the Canadian public. Canadian nationalism, or the closely related phenomenon of anti-Americanism, is a latent force that could gain increased strength if the benefits of integration/convergence are not evident, and/or if Canadians react strongly against the perceived loss of sovereignty and political leadership caused by integration and globalization. Increased U.S. isolationism, or a rightward shift in the U.S. that is markedly further than in Canada, could exacerbate such a shift. Public attitudes in both Canada and the U.S. could enter an unpredictable period as the transition to greater interdependence on a global basis challenges traditional forms of political representation and leadership. Policy directions will have to reflect broadly held values if they are to maintain public support.

Competitiveness

- Despite the advances made since the FTA/NAFTA, the performance of Canadian manufacturers has been lagging behind U.S. performance, as has labour productivity. It will be important to determine the extent to which this lag exists, why, and what can be done about it.
- Canada will need to know more about how to attract and retain quality investment. As a first step, more knowledge is needed about the motivations behind investment decisions in the North American market.
- A highly-skilled workforce will be increasingly important as knowledge-based industries play a larger role in the economy. We will need to know how to educate, attract and retain highly-qualified people, as well as retrain existing employees in declining industries.
- As the Canadian economy is made up of a higher proportion of SMEs than that of the U.S., additional research is needed to determine what informational

tools could be of use in assisting these enterprises in expanding their operations into the U.S. and other markets.

- Further research is also needed into how Canadian advantages (e.g. education, social policy, intellectual property law, resource stewardship) can provide a competitive edge in the market.

Integration and Convergence

- While little control will be exercised over commercial integration, governments can play an important role in determining the pace and nature of the convergence of policies, standards and regulations. We need to determine where integration is to our advantage and where we may risk losing important competitive or social advantages or Canadian cohesion/cultural advantages. We also need to consider the areas where it makes sense to integrate sooner as compared to those areas that should be on a slower track.
- Economic integration will occur with uneven benefits on either side of the border. Greater study needs to be given to the factors that go into developing the "critical mass" for an industry to develop in one area as opposed to another. More fundamentally, further study should be given to assessing the importance of critical mass, and in which industries it may matter more than in others.
- We also need to consider how much our foreign policy objectives diverge from those of the U.S. How can we distinguish ourselves from the U.S. and promote our own values and culture without repercussions for the economic relationship? Are we locked into proceeding in the same directions as the U.S.?
- Pressures to define and protect Canadian culture and identity will continue. As protectionist measures become more difficult and costly to defend, ways of encouraging the expansion of Canadian cultural expression and productions should be explored, particularly in new areas of technology.
- Further examination is also needed of factors that may influence any trend towards political integration, and how Canada could respond to these forces.

Expanded Rules and Multilateralism

- Canada's membership in international organizations is uniquely large and wide-ranging (UN, NATO, Commonwealth, la Francophonie, NAFTA, APEC, OAS, etc.). Consideration needs to be given to which international organizations or institutions are most useful for meeting Canada's needs, and how to collectively promote our issues through this broad range of organizations. Participation should be expanded in those which are most effective insofar as facilitation and management of the Canada-U.S. relationship is concerned.
- Canada should examine what alliances could usefully be formed with other countries, in particular non-traditional allies, in the pursuit of common goals vis-à-vis the U.S.
- Canada should look more closely at which changes to international trade rules could complicate the bilateral trading relationship, and which ones could enhance it, and keep these considerations in mind when determining which global trade rule changes to advocate.

- The Canada-U.S. relationship is a two-edged sword. It could constrain our ability to pursue independent goals reflecting our distinctive values and objectives, but it could also be used as a vehicle to promote our interests on the international scene and achieve our domestic objectives. We need to look more deeply at both of these possibilities.

Fiscal Constraints

- Greater examination is needed of how much room to maneuver there may be with respect to social spending or other fiscal actions without having an effect on financial markets or, more specifically, how governments might respond effectively to increased pressure on social programs without causing disruption in financial markets.

Policy Constraints

- New forms of political structures and linkages should be examined. As possible examples, the merits of establishing a Cabinet Committee dedicated to the management of the Canada-U.S. relationship (and coordinating the activities of the various federal departments), including its defence component, and the possibility of institutionalizing and formalizing regular contact between Cabinet ministers and Secretaries should be explored. Another area requiring study is the various provincial and NGO formal and informal relationships with their counterparts in the U.S.
- Within Canada itself, more knowledge is needed on how federal, provincial and municipal governments and NGOs could more effectively work together in advancing a Canadian agenda of issues. Like Canada, the U.S. is made up of several unique regions. Further study on how regional actions in the U.S. (e.g., acid rain) are affecting Canada would be useful.

Conclusions

In today's world, change is increasing at an exponential rate in every sphere of life. The U.S. will either be leading, or at minimum strongly influencing, these changes. Canada, as a much smaller player in the global community, and with its close ties with the U.S., will need to be prepared to respond quickly to events beyond its immediate control. In the new global environment, knowledge and flexibility will be the most valuable commodities.

Maintaining our close linkages to the U.S. will be to our advantage, but the apparent shortcuts offered by riding on the U.S. coattails will need to be balanced by careful consideration of where our goals and objectives may differ from those of the U.S. Increasing integration with the U.S. in many sectors should not be mistaken for a goal in itself, but as a means of improving our internal capabilities and as a stepping stone to positioning ourselves in the global market.

Canada-U.S. Relations – Research Agenda

Competitiveness

1. To what extent does the performance of Canadian manufacturers and our labour productivity lag behind U.S.? What are the reasons for this, and what can be done about it?
2. How can we attract and retain quality investment? What motivates investment decisions in the North American market?
3. How can we educate, attract and retain highly-qualified people, and how can we retrain existing employees in declining industries?
4. What informational tools could be of use in assisting SMEs in expanding their operations into the U.S. and other markets?
5. How can Canadian advantages (e.g. education, social policy, intellectual property law, resource stewardship) provide a competitive edge in the market?

Integration and Convergence

1. Where is integration of policies, standards and regulations to our advantage and where do we risk losing important competitive or social advantages or Canadian cohesion/cultural advantages? Are there areas in which it makes sense to integrate sooner as opposed to areas that should be on a slower track.?
2. What are the factors that go into developing the “critical mass” for an industry to develop in one area as opposed to another? In which industries it matters more than in others?
3. How much do our foreign policy objectives diverge from, and how much are they locked into those of the U.S. ? How can we distinguish ourselves from the U.S. and promote our own values and culture without repercussions for the economic relationship?
4. What are the best ways to protect Canadian identity by encouraging the expansion of Canadian cultural expression and productions, particularly in new areas of technology?
5. What are the factors that may promote political integration, and how can Canada respond?

Expanded Rules and Multilateralism

1. Which international organizations or institutions are most useful for assisting Canada in its relationship with the U.S.?
2. What alliances could usefully be formed with other countries, in particular non-traditional allies, in the pursuit of common goals vis a vis the U.S.?
3. Which changes to international trade rules could complicate the bilateral trading relationship, and which ones could enhance it?
4. To what extent does the Canada-U.S. relationship constrain our ability to pursue independent goals? To what extent does it offer a vehicle to promote our interests on the international scene and to achieve our domestic objectives?

Fiscal Constraints

1. How can governments respond effectively to increased pressure on social programs without hurting the government's agenda on debt and deficit?

Policy Constraints

1. What new forms of political structures and linkages would contribute to better management of the Canada-U.S. relationship without undermining our sovereignty, e.g.
 - a Cabinet Committee on managing the Canada-U.S. relationship (including defence) and coordinating the activities of the various federal departments
 - possibility of institutionalizing and formalizing regular contact between Cabinet ministers and Secretaries
2. What kinds of relationships are evolving between provinces and NGO and their counterparts in the U.S.?
3. How can federal, provincial and municipal governments and NGOs more effectively work together on Canadian issues?
4. How are regional actions in the U.S. (e.g., acid rain) likely to affect Canada?

4. Economic Globalization

The Issue

This paper explores the implications for Canada of the phenomenon of economic globalization which is currently transforming the context for both foreign and domestic policy. The period of primary concern extends from 1997 to 2005.

The paper discusses in some detail the challenges and opportunities which this situation offers, and identifies the policy issues needing to be addressed. Finally, it outlines an agenda for policy research in coming years.

Economic Globalization and its Implications

Defining "Economic Globalization"

On a broad plane, "globalization" refers to world-wide adoption of certain shared values, including electoral democracy, market-oriented economic systems, and more open, liberal social and cultural systems. Ideas, information, people, money and products pass freely across borders. "Globalism" is also used. In either case, the term refers to a *trend*, not to a fixed end state, recognizing that countries are at differing stages of evolution, and of integration with a global society and economy.

In this paper, "economic globalization" refers specifically to the establishment of more integrated world-wide markets for technology, investment, production, distribution, and consumption. Implications include increased mobility of factors of production, including physical and financial capital, human resources, and knowledge, and expanded high-speed telecommunications and transportation networks which make it possible to operate efficiently in many countries at the same time.

Economic globalization includes around-the-clock operation of financial markets, and integrated production systems controlled by multi-national enterprises (MNEs). Resource-extraction, manufacturing, R&D, and corporate management may all reside in different countries, according to comparative and competitive advantages of each location. A major feature of economic globalization is initiatives by governments to accelerate the liberalization of trade, investment, and associated rules under the new World Trade Organization (WTO).

Governments are also moving, country by country to reduce barriers and attract foreign investment, e.g., through currency convertibility, reform of investment rules, and changes to taxation regimes. Cause and effect relationships between global trade and investment patterns and liberalization of rules are intermingled.

Implications

Limits on sovereignty

Today, most countries have been forced to give up parts of their economic sovereignty, and to redefine the range of acceptable policy interventions. These may take new forms, based on claims of national security, safety, environmental protection, or other methods of achieving a favoured position in the competitive struggle. The scientific and technological content of most forms of achieving competitive and comparative advantage has increased in many countries, although subterfuge, theft of intellectual property, and corruption also play some role in various countries as well.

Integration of capital markets has complicated the ability of governments to carry out stabilization policy in conventional Keynesian ways. That is, some have found it harder than before to use monetary and fiscal policies to steer domestic economies on a path that avoids both recession and inflation. Channels through which these policies affect the domestic economy have become more complex. On the other hand, reference to the forces of globalization has also, in several respects, made stabilization of policy easier. In Canada, for example, the immediate impact of globalized capital markets has been a shift from fiscal to monetary policy levers, and narrowing of policy options to those associated with maintaining the dollar and inward investment flows at target levels. General acceptance of the realities of global capital markets by political parties and the public has seemingly produced a consensus on the need for reduced deficits, public debt, and reductions in public sector expenditures and interventions.

Unless the pressures of globalization on the social and cultural fabric of the country are addressed, however, this consensus is likely to fray and even to tear by 2005. As policy-makers in governments regain some room to manoeuvre, they will be faced with demands for renewed intervention, in particular, to address the needs of those hit hardest by the effects of globalization.

Industrialization

Globalization promotes and is also driven by rapid industrialization of some developing countries, e.g., in the Asia Pacific region and in South America, and by the transition in formerly Communist regimes to free market principles. It is leading toward greater integration of the world's economies, creating the widest range of consumer choice and access to products and services. In emerging markets, it is accompanied by rapid population growth, rapid growth in consumer incomes and demand, and increased migration.

In this context, there are rising global demands for basic materials and for energy. These imply a more active policy agenda to respond to stresses on the natural environment, e.g., through carbon dioxide production, resource depletion, and loss of species as habitats are transformed. At the same time, pressures are mounting for governments to redistribute wealth generated by global integration through use of low-wage labour for routine production tasks, and by rapid automation of industrial processes in advanced industrial countries.

Inequality

The positive vision of globalization is of unlimited consumer choice met in an environmentally sustainable manner, coupled with enriched social and cultural experiences for the broad mass of the world's population. However, this can be undercut or destroyed by a reality of multitudes of unemployed, resentful workers and glaring inequalities of wealth and life chances. This scenario would point toward political, social, and cultural reactionary movements of a kind seen during the first and second waves of

industrialization in Europe. As already evidenced by the world's recent experience with terrorism, religious fundamentalism and failed states, such anti-state movements would further complicate the lives of government policy-makers through their possession of many more destructive weapons technologies and instantaneous global communications.

Competitiveness

Whatever the outcome, the major implication of globalization for all economies is that it will no longer be possible to hide behind borders and associated restrictions on trade, investment, currency exchange, or mobility of highly-qualified people and knowledge. This in turn forces countries to concentrate on their *areas of comparative advantage* and their inherent strengths from a global market perspective. Promoting "inherent strengths" could translate into other policy dilemmas, for example in relation to competition policy and micro-economic policy designed to support "winning" sectors and individual MNEs or other firms within sectors.

Globalization is placing immense pressures on the process of technological innovation, coupled with social, cultural and organizational innovation to do what technology cannot, even though it appears to call at the same time for reduced governmental intervention.

Canada and Economic Globalization

Globalization obviously gives rise to key pressure points across all Canadian economic, environmental and social policy. Whether at home or abroad, Canadian policy-makers need to be sensitive to the need for well-considered sustainable development approaches to these issues.

Since Confederation, Canada has *always* been closely linked to the wider "global" economy as defined at the time. It was first part of the British Empire and associated systems of preferential tariffs, ownership and investment by British-based companies. Following World War II, it moved progressively into the American orbit as part of the Western hemisphere and continental trade, technology and investment flows. However, Europe has continued to be an important Canadian export market and a significant source of foreign investment in Canada.

The last stages of protective Canadian economic policy were played out in the early 1980s. They largely ended with entry into the Canada/United States Free Trade Agreement and the North American Free Trade Agreement. Since then, the country has been looking for new ways to assert its international economic strengths and to protect its vital interests, whether in jobs, domestic competition, innovative technologies, Canadian identity, cultural industries, social safety net, or environmental security.

The alternative is seen to be the "soft power" of the "knowledge society" in which people make the "right" choices by possessing the scientific evidence and the technologies with which to access it readily. Governments play the role of "steering" rather than "rowing".

However, as the mixed track record of "social marketing" and the rise of "failed states" in the midst of unprecedented support for global stability illustrates, the tangible results of a knowledge-based approach to governance are by no means assured. The reality against which this model could founder is that governments themselves have limits on their capacity and credibility as centres of knowledge. In a polycentric world of expertise, many forms of misinformation and partial information can continue to abound, and the standards against which knowledge itself is assessed can become unstable.

Challenges and Opportunities

Adjusting to Globalization

Over the next decade, Canada's competitive position, and its ability to adjust to the pressures of globalization, will continue to be dependent on the maintenance of a stable macroeconomic environment. This means first and foremost the pursuit of sound public finances and relative price stability. A supportive macro-economic environment can enhance a country's competitiveness by fostering lower real interest rates (by reducing risk premiums compared to other countries competing for international capital) and by reducing distortions in private investment and savings decisions (which damage economic efficiency in the long term). It will be essential for Canadian policy-makers to track very carefully the global implications of shifts in Canada's macroeconomic environment and to continue to draw the linkages between the two.

As *Growth, Human Development, Social Cohesion* notes, economic integration is not new, but the rapid pace of integration embodied in globalization is. Indeed, the originators of the concept, often U.S.-based multinationals, may now be surprised by how it has evolved and assumed a life of its own. Accelerating globalization coupled with the rise of Japan, China and the "Little Tigers", a tariff-free European economic space, and the end of the Cold War, are producing a multi-polar economic world. Large American corporations must struggle along with everyone else to adapt, and in some cases, e.g., softwood lumber, are in the vanguard of promoting a return to protectionism in economic matters, as well as favouring American isolationism in global security matters.

The key issue for Canadian governments is how to use the forces of globalization to Canada's advantage in the context of a decentralized federation and a climate which questions or even prohibits previous models of government intervention, including taxation, subsidies, regulations, and direct ownership.

Factors Favouring Canada

Compared with many of its major competitors, Canada appears to be *well positioned for the medium term* as a result of firm action on its deficit, low inflation rate, positive trade balance, stable currency, and welcoming climate for foreign investment.

These positive factors compound strategic Canadian advantages inherent in a substantial natural resource base, including ample supplies of water and arable land for grain-growing, as well as abundant minerals, energy and forests. To this resource base are added excellent resource-processing capability, efficient transportation systems, a relatively well-trained workforce, and significant progress toward gender equality and protection for minorities.

Moreover Canada is rendered more ready for globalization by its linguistic and cultural diversity, efficient and attractive urban regions, comparatively advanced science and technology, and functioning social safety net. It is taking active steps through such initiatives as *Canada's International Business Strategy*, increasing use of the Internet, and the "Forum for International Trade Training" to prepare companies both to meet competition from and to enter more actively into global markets.

Canadian firms in telecommunications, aerospace, natural resources, auto parts, and financial services sectors, among others, are already global players.

Through expansion beyond NAFTA, an active role in WTO, and direct outward investment by Canadian firms in financial services, mining, communications, aerospace, and other sectors, Canada itself is pushing out the boundaries of globalization.

Canada is also among the countries on the leading edge of using international development assistance as a tool for bringing some developing economies into the global marketplace, including Indonesia, the Philippines and others.

It provides vital support for integrating the former Soviet Union into the WTO and other parts of the international community, supports privatization, and underwrites risks of Canadian investment, for example through assistance with formation of joint ventures. Its development assistance is increasingly targeted as well to countries which are at risk of being further marginalized by the processes of globalization.

It is not surprising that the World Bank has ranked Canada as one of the world's wealthiest nations, building on its United Nations rank as the most developed country in the world from socio-economic, infrastructure, education and health perspectives.

Vulnerabilities

Despite its many comparative and competitive advantages, Canada has some significant vulnerabilities to a rise in the value of the dollar, sudden requirements for additional revenues to service the public debt, outsourcing by foreign-owned multinationals, further trade liberalization in traditional manufacturing sectors and increased competition for global investment.

Much is already being done by the Government of Canada and by Provincial and Territorial governments to adapt to globalization. However, more action will be needed to assert a Canadian position on such vital matters as market access, product standards, safety and environmental regulations.

As well, the domestic politics of globalization can be expected to complicate further the task of formulating and implementing common Canadian responses to the forces of change in international and domestic markets. There are likely to be concerns about impacts on the status of women and gender equality, effects on Canadian culture, and social policy concerns arising from displacement of older workers and those with fewer relevant skills, and the decline of some communities and regions.

There are continuing pressures on national identity, culture, the social safety net, and social cohesion in regions and among groups less able to be part of the globalization trend, such as those with limited literacy skills, and those unable to afford the basic requirements for taking part in the knowledge-based economy.

To the extent that English has become the language of international commerce, globalization also compounds Canada's difficulties in maintaining and enhancing the use of French, and seems to raise the stakes in conflicts over language policies.

Canada will need to monitor the American responses to globalization as closely as it does domestic trends.

Possibility of a Backlash

Stresses on domestic markets and on society can give rise to positive adaptive strategies which use and target available Canadian leverage most effectively, or they can spawn reactions which seek to "turn back the clock" in a variety of ways. While these may be doomed to failure from the outset, the strength of a potential reaction to the forces of

globalization should not be ignored and should form an intrinsic part of the Federal policy research agenda. It is possible that by 2005, a strong counter-current could set in among the Canadian population at large which rejects many of the assumptions of globalization, or seeks to respond through even closer links with the United States in creating a protected North American market.

The State Of Knowledge

Framing the Issues

The aim of establishing an integrated cross-governmental policy research agenda at this stage is to *frame the issues* most usefully for guiding decisions by Federal policy-makers to the year 2005. The overall goal is economic growth and the *generation of wealth* in the form of trade revenues and technology inflow, returns on investment abroad, tax revenues, and rents from natural resources. These are required to support the Canadian social safety net, the transition to systems for sustainable development, and ongoing adjustment to global change. Among the most significant policy choices in the future are those about emphasis on Canada's role in North America compared to its place in the rest of the world.

The Canada-U.S. Relationship

As *Growth, Human Development, Social Cohesion* notes, globalization as it affects Canada cannot be disentangled from our extensive trade and investment relationship with the United States. In some respects, however, greater *North American* economic integration could actually work *against* the forces of globalization more broadly defined. That is, it could potentially be used as a device for helping to protect American corporations against threats to market share from other global trading blocs, according to the model of "Fortress America". This return to protectionism might function for a time, but would be bound to lead to stagnation and internal conflict over the slightly longer term.

Both Canada and the United States are seeking to adapt to the process of globalization. In this struggle to adapt, Canada has some important *comparative advantages over the U.S.* It can develop its *own agenda and model* accordingly. For example, in the midst of American military spending and associated subsidies for R&D, a large proportion of foreign ownership, and some "false starts" in the 1960s, Canada has developed a world-class aerospace industry with surprising strengths in key civilian market niches.

Globalization offers the opportunity to move beyond the U.S. market, which is likely to feel the effects of an aging population and industrial base in the longer term. More attention will be focused on other large and rapidly-growing markets as suggested by major trade missions: to Eurasia, Asia Pacific, Latin America. Canada's cultural and linguistic diversity will be enhanced, in response to the changing patterns of inward migration and immigrant investment.

Comparative Advantage

Canada's comparative advantages in undertaking adjustment to global economic change include its stronger social safety net, more attractive urban regions, stronger educational system for recent immigrants, and greater facility in foreign languages. It can compete fully and actively with many U.S. firms in the global economy. Canada must also recognize, however, that the U.S. also has major advantages of its own arising from its economic size and population, global military position, strong international financial institutions and markets, and vibrant manufacturing and services industries in many sectors such as machinery and equipment, consumer products and leisure industries.

The Canadian government is signalling its intention to diversify Canada's trade, investment, communications, cultural, and environmental linkages, through *Canada's International Business Strategy*, "Team Canada" missions and other means. A combination of international and domestic developments *now make it more feasible than ever before to diversify beyond North America*, whether by facilitating private sector trading and investment activities or by engaging in strategic government-to-government deals. Canadian companies are becoming increasingly outward looking and entrepreneurial in global markets. Canada has become uniquely suited to being part of a global society, and has developed its own multi-national firms as well as others which depend on their success, in natural resources, manufacturing and services sectors, as the chart below illustrates

In the past, a combination of active barriers to trade and foreign investment by other countries, centrally-planned economies, and lack of developed Canadian trading and foreign investment capabilities undermined the strategy of diversification beyond North America.

Key Requirements

For Canada, economic globalization necessitates strengthening relative productivity performance compared to countries *producing similar natural resource commodities and niche-market manufactured products and services as Canada*, wherever they are located. In relation to these countries, Canada can best achieve its objectives through investment, technical assistance, technology transfer, and multilateral pressure to bring emerging economies into science-based regulatory arrangements, and rules-based trade regimes.

Globalization offers the opportunity to extend Canada's advantages in value-added natural resources, transportation, and communications. More than ever before, the market will determine areas of true competitive advantage. However, this also means that many smaller communities as well as some large ones will continue to face difficult times, and challenges beyond the capacities of local leadership to manage.

In the context of globalization as well, intellectual property is obviously becoming much more important, and a key facet of the effort to bring countries onto a "level playing field". As one example, Canada will need to track and seek to counter, in alliance with other countries, American efforts to use their "security" rubric to protect and subsidize domestic industries exposed to international competition, and to limit "national treatment" of Canadian companies offered under free trade arrangements.

The relative competitiveness of individual Provinces and urban-centred regions will become even more important in an era of "foot-loose" capital looking for productive and pleasant operating environments

Industrial Sectors

The dilemma posed by the new global trading environment is typified by forecasts of automotive production. Canada is next to the market, the United States, which is projected to grow by the largest amount in absolute terms, other things being equal. However, Canada's most rapidly growing trade is with countries likely to expand their markets for all types of consumer durables by the largest amount in relative terms, and which will collectively overshadow the U.S. market in absolute terms.

The idea of greater North American integration stresses economic benefits of continuing to improve competitive performance of Canadian manufacturing to maintain productivity performance at least comparable to that of U.S.-based manufacturing. It focuses also on "safeguarding" Canadian interests on social, cultural, and environmental fronts, but in the context of a sense of needing to compete effectively with evolving, generally lower U.S. and Mexican standards in each of these fields. Canadians are already signalling their concern about such a direction, and the evidence on whether "safeguarding" as a policy objective really works is mixed.

To place Canada/United States trade figures in a global context the largest portion of Canada's bilateral trade with the U.S. is in the automotive sector, while the main sectors enjoying substantial surpluses on all fronts are in the natural resource sectors.

The most fully "globalized" sectors based on this indicator are: agriculture and fishing; minerals and industrial goods such as chemicals; forestry; and selected types of machinery, such as aircraft and power generation equipment. In addition, *business services* exports are increasingly to countries outside the United States. Note that "Industrial goods" includes metals and metal ores, chemicals and plastics for onward processing, non-metallic minerals, crude animal products, basic textiles, etc.

Two current realities of Canadian merchandise trade: 80% is with the U.S., and 40% of all merchandise trade is between parent companies and their subsidiaries.

Research to Help Resolve Key Policy Issues

The bedrock of making Canada's way in the new global economy is macro-economic policy stability and predictability, so as to maintain comparatively low interest rates and a sound though not too rapidly appreciating dollar. Additional key elements of the "macro" framework include regulatory efficiency and balanced tax policies.

This macro-economic policy framework must be supplemented by appropriate micro-economic policy and social policy instruments, designed to work with industry and with labour to determine and implement at the very least, best practice technologies. Better still is the ability to *lead sectoral technology change* in global market niches. Canada is already doing so in such areas as flight simulators, geomatics and earth sciences, telecommunications, energy-efficient buildings, environmental technologies, selected aspects of computer software, and consulting engineering.

Exercising Canadian Leadership in the Wider Global Economy

1. Research is required to determine more precisely the nature and volume of opportunities for and threats to Canadian-produced commodities, products, and services in key emerging markets and to define and develop appropriate micro-economic and social policy responses.

- This work should be carried out with the goal of exercising sound stewardship over Canadian reserves of natural resources, adding maximum value to them, and preserving or enhancing Canadian manufacturing and service sector advantages. Results of this research should also contribute to global sustainable development and reduced environmental impacts. Canadian policy options in this field need to consider how best to leverage current rapidly growing global exports to emerging economies into patterns of investment leading to higher value-added products and services such as those embodied in telecommunication networks.

2. Research also needs to focus on governmental strategies to address the inevitable growth of local production in emerging economies and of production in current major markets based on more accessible and richer natural resources reserves and lower-cost labour, e.g., growing Japanese use of Russian forest resources.

- Canadians will need to be reassured simultaneously that change is being well-managed by all governments concerned, and that the pace of change in employment, wages and consumption of Canadian natural resources is not in conflict with improvements in the Canadian quality of life. Those individuals and communities which may lose out to new competition from emerging markets need to have alternatives for the future, and to be reassured.

3. "Green consumerism" is becoming an increasing factor in Canadian trade with developed economies. In this context, research is needed on the related issue of how best for governments to work with industry to get ahead of the emerging "eco-efficiency" agenda for product stewardship over their entire life cycle.

- According to this agenda for industrial retooling, products are redesigned from the ground up to reduce their energy and materials content and their environmental impacts at all stages of the life cycle. As an example, Nortel is engaging in a partnership with the Federal government to completely redesign the telephone according to this agenda.

4. Closely related is the determination of how best for governments to facilitate exports of Canadian know-how and natural resources science, technologies and services to its emerging competitors.

- Decision factors include: creating conditions for more equitable sharing of benefits of growth social groups and according to fair treatment for both genders; fostering economic diversification; and reducing impacts of exponential growth on climate change, loss of species and loss of large areas of habitat to development.

5. Canadians need to consider how best to position Canadian development assistance and cooperation and to influence investment by International Financial Institutions in the emerging economies to contribute most to social equity, gender equality, and environmental benefits of globalization.

- Other complementary facets of constructive responses to globalization include work on improving governance, human rights and democratic development, all of which are critical to sustainability.
- Competition is emerging from countries with less rigorous environmental regimes than those to be found in Canada and other advanced industrial countries. Though "pollution havens" do not appear to be a major factor in global markets as yet, at least from a Canadian perspective, they have a potential for the future. In countries of Southeast Asia, for example, human rights groups note that lax environmental laws may be part of a pattern which includes poor occupational health and safety regimes, use of child labour, inefficient use of energy and natural resources, and other problems. These require integrated sustainable development strategies and multilateral action.

6. Research is needed to develop governmental options for meeting basic needs and opening up other developing economies which risk being further marginalized and hence destabilized by the forces of globalization.

- These countries may not have the natural resources or the stable social structures and literacy levels required to take part. They may not be able to move beyond monoculture of certain basic crops for which world markets are subject to wide price fluctuations. As a result, both desperate need and the politics of envy may cause them to attack or to undermine better-off neighbours, either locally or globally.
- Responses to such situations are likely to be multilateral in scope, and to involve opening up to trade and investment, peace-building and reconstruction after conflicts, as well as other forms of development assistance. The key point to be made is that leaving such countries to the margins of the global economy is bound to spill over into the success stories of globalization, whether through terrorism, failed states, or disruption of multilateral and international governance bodies.

Defending Canada's Interests in the North American and G-7 Context

1. Research is required on the how Canadian governments can most effectively counter the emerging use of standards, environmental regulations, "national security" legislation, and similar mechanisms to undercut the trend toward globalization of knowledge, technology, investment and trade.

- Even as tariff barriers are falling under the Uruguay Round and the new World Trade Organization, new market access restrictions are arising. New rationales are being devised for excluding foreign companies from participation or denying world product mandates to subsidiaries.

2. An immediate implication of combining consideration of emerging globalization trends and the use of standards as new barriers to trade and investment is the impact of Canada's own governmental system on its global market posture and capacity to compete, and the relationship of global competition with Canada's own economic union and labour mobility.

- Canada can hardly lead the agenda for international reform of standards for products ranging from aircraft to pulp mills, and from power generation projects to office equipment if it cannot gain widespread acceptance of shared standards within its own borders.

3. Finally, it will be essential to research how best governments can use Canada's own "neighbourhood" as a way of demonstrating its approach to globalization.

- This includes the emerging eight-nation circumpolar policy agenda of environment and development in the Arctic, cross-border cooperation with the United States on resolution of industrial growth and environment issues, and maintenance and strengthening as fiscally feasible of Canada's social safety net in the context of pressures on manufacturing and services costs arising from U.S. and Mexican competition.

Conclusion

The inherent nature of globalization is that it is dynamic and rapidly changing. While policy research can lead to more informed debate within the next one to three years on strategic choices, there is a longer-term research and database development agenda which needs to be considered as well. This should consider not only the impacts of globalization but

also the possibility of a reaction to it. In addition, Canada will need to monitor as part of all policy-oriented research on globalization, the American responses to this trend.

Statistics Canada has already flagged key aspects of these new knowledge requirements. Agriculture and Agri-Food Canada, the Canadian International Development Agency, Fisheries and Oceans, Environment Canada, Industry Canada, Foreign Affairs and International Trade Canada and Natural Resources Canada and others have significant contributions to make to this longer-term expansion of strategic decision-making information. The overall aim is to improve Canada's knowledge infrastructure on the country's main sources of comparative and competitive advantage.

There appears to be a broad consensus within the Federal government that Canada's most appropriate and effective response to the forces of globalization is to welcome them and use them to our advantage. This does not preclude the likelihood of further "bumps" and dislocations as globalization proceeds to some natural plateau, and as inevitable reactions to its effects set in.

Monitoring and evaluating the downsides as well as the upsides in a balanced fashion will be essential. Federal departments already see some "bellwether" issues for assessing our strategy toward globalization, including how Canada addresses the Arctic, how it focuses on employment and adjustment in less advantaged regions and socio-economic groups within Canada, how it engages in partnerships with its leading corporate global players, and how it addresses the economic and human development needs of Aboriginal people.

Economic Globalization – Research Agenda

Strategic issues for further investment in policy research and ongoing information base development to support future-oriented policy development by both orders of government include

1. How do Canada's science and technology and innovation systems compare with those of its major competitors in each of the fields of major Canadian strength, and in niche markets within other fields, including telecommunications and computer software, aerospace, natural resources, business and financial services?
2. How do best practices in Canadian manufacturing and resource-processing firms compare with those to which multinational firms are outsourcing production, and with "core" manufacturing capabilities in the United States, United Kingdom and Germany in particular?
3. How well do indicators of Canada's provincial, territorial and urban region efficiency, labour standards, literacy, gender equality, social safety net, and environmental standards show them to be performing in relation to its major competitors in both developed and emerging economies? This assessment should take into account product quality, productivity and timeliness of service, and should extend to comparisons with individual states of the United States and perhaps to other sub-regions within Canada's major competitors.
4. How can Canada's use of international development assistance further encourage greater economic and social self-sufficiency on the part of developing and emerging economies, turning them into markets and parts of the global economy?
5. How can Canada's international leadership on climate change, airborne toxics and sustainable natural resources development be made even more effective, e.g., in seizing opportunities for joint implementation, technology twinning and global emissions trading?
6. How do indicators of Canada's social resiliency and cohesion, safety, identity and security compare with those of its major competitors? Is it adjusting better, as well as, or more slowly than its major competitors, including those in emerging and transitional economies.

5. The Trade Agenda in 2005

The Issue

Exports comprise almost 40 per cent and imports about 35 per cent of Canada's Gross Domestic Product (GDP). Foreign investment in Canada accounts for more than 21 per cent of GDP. One in three Canadian jobs is tied to exports. These numbers are on the rise, and by 2005 it is possible that exports alone could account for more than 50 per cent of GDP. Canadian growth and prosperity are inextricably linked to making a success of globalization and trade liberalization.

Understanding the trade agenda in 2005 involves looking at a number of elements, including likely negotiations, issues related to the implementation of international agreements, opportunities for unilateral liberalization, and trade promotion questions. This paper sets out what we know and what we will need to know about the trade agenda in 2005 (Annex I), and how all this relates to the domestic agenda. The right approach to this agenda will ensure that:

- ☐ more Canadian companies sell more and different products and services in a wider range of markets;
- ☐ foreign investment is attracted to Canada;
- ☐ there is a stable environment abroad for Canadian investors;
- ☐ Canadian consumers have the best selection of products and services at the best prices; and
- ☐ Canadian industries are internationally competitive and are players in the global market place.

The Contours of Canada's Trade

Much attention has been focused on Canada's trade with the U.S. While Canada's trade with countries other than the U.S. nearly doubled between 1986 and 1995 to \$52 billion, Canada still sold 80 per cent of its exported goods and 60 per cent of its exported services to the U.S. in 1995. This enviable success vis-à-vis the U.S. market has been facilitated by numerous factors including geography, favourable exchange rates, long-standing corporate and investment linkages and progressive liberalization through the General Agreement on Tariffs and Trade (GATT), the Canada-U.S. Free Trade Agreement and the North American Free Trade Agreement (NAFTA).

Diversifying Export Markets

Beneath the national figures there are regional and sectoral differences. While Ontario and Quebec sell almost all of their exports to the U.S. – about 90 and 80 per cent respectively – the figure is only 50 per cent in Canada's Pacific region, where more than 35 per cent of exports go to Asia-Pacific countries. From a sectoral perspective, the shape of dependence on the U.S. market is also changing. For example, in 1989, 55 per

cent of Canada's agricultural exports went to the U.S. By 1996, that figure had fallen to 38 per cent.

Many of the regional and bilateral initiatives in which Canada is involved are aimed in part at diversifying markets for Canadian goods and services. In particular, participation in the Asia-Pacific Economic Cooperation (APEC) forum and the discussions to create a Free Trade Area of the Americas (FTAA) are expected to have the effect of focusing Canadian exporters' attention beyond the traditional U.S. and European markets, just as NAFTA did with Mexico and the new arrangement should do with Chile. Non-traditional export industries across Canada are just beginning to awaken to these new opportunities. In Latin America – a region in which demographics and rising incomes suggest consumption will increase dramatically over the next decade – Canada has only a three per cent market share. The diversification and growth of our import and export markets will also have an important impact on the structure and vitality of the Canadian transportation industry.

In spite of the growth of trade policy initiatives in important emerging markets, Canada has been losing market share in a number of these countries, particularly in Asia. The most striking example of this is Malaysia: between 1989 and 1994 Canada's market share fell by 15.9 per cent. While generally attributed to increased integration in Southeast Asia, this begs the question of the real impact of regional trade policy attention on trade flows, and suggests the need to examine the effectiveness of trade promotion activities.

Efforts to diversify export markets have included high profile, Prime Ministerial-led trade development missions to a number of emerging countries in the Asia-Pacific and Latin American regions. While the business community and provincial governments have been very supportive of the initiatives, certain interest groups have at times accused the government of taking a business perspective and abrogating its responsibility to promote a Canadian vision of the public good. This raises a policy question since some of the largest untapped markets for Canadian goods and services are in developing countries. In many of these countries, extreme poverty is the root cause of problems in the areas of human rights, labour standards or the environment. One possible approach is the creation of more explicit linkages between trade promotion activities and official development assistance.

The Changing Profile of Exports

More generally, the profile of Canadian exports is changing. While one quarter of goods exports were primary products 1985, ten years later this figure had fallen to 18 per cent. Given that sales of primary products offer little price flexibility, and are more likely to attract the attention of non-government environmental or animal rights activists, consideration may need to be given to how to nurture further this diversification into new areas.

International trade in services now accounts for more than 20 per cent of total world trade and is growing faster than trade in goods. In 1995, services trade accounted for approximately 14 per cent of total Canadian trade. Canada's exports of services appear to have grown by about 50 per cent from 1985 to 1995. While this is clearly an increasingly important component of the Canadian (and the global) economy, measuring just how important remains a challenge due to the lack of consistent and comparable data.

Data is also insufficient for measuring intra-firm trade, which could now account for as much as 40 or 50 per cent of Canadian trade. Accurate information in this area could have an impact on a number of issues, including defining effective trade promotion activities. Improving data measurement, and updating economic indicators to ensure that they capture the real level of activity, will be important for making informed policy choices in 2005.

International Investment Flows

The lack of reliable data on international investment flows is also a particular challenge for policy-makers. Investment has become a powerful force integrating the world economy. In fact, the annual production of goods and services by foreign affiliates of multinational companies now exceeds the total value of world trade in goods and services. Canada's share of the world's inward foreign investment flows has fallen from 11.3 per cent in 1980 to 4.6 per cent in 1994. Given the economic significance of foreign inward investment, it will be important to assess whether Canada's current foreign investment regime is as conducive to encouraging foreign investment as it could be, and how it compares to competitors' regimes.

While the value of outward investment is not always well understood, it is equally important. In a number of sectors, including natural resource industries, outward investment is already an important component of international transactions. It may also be increasingly important in Canadian sectors such as textiles with the end of the protection afforded to domestic producers in Canada by the *Arrangement Regarding International Trade in Textiles* in 2005.

Exports in Relation to Size of Firm

While trade makes a significant contribution to Canada's GDP, the participation rate of small and medium-sized enterprises (SMEs) in trade activity remains modest. In fact, only 50 Canadian companies account for 50 per cent of exports. It will be important to identify the impediments to the participation of SMEs in trade and to take action to address this problem.

Issues on the Trade Agenda

Broad Issues

Trade liberalization efforts are increasingly focused on defining rules that will have an impact on areas of domestic policy once beyond the scope of international disciplines. These rules have an impact on a wide range of domestic policies at the national and sub-national level, and Canada's agility in setting its domestic policies, and proposing international disciplines in areas of interest will be key.

Implementation of the rules that have been developed will be an important element of Canadian trade activity in 2005. This will involve everything from customs administration, through the management of trade disputes. On the latter point, there have already been almost as many disputes brought to the World Trade Organization (WTO) for resolution since its creation in January 1995, for example, as in the ten previous years of the *General Agreement of Tariffs and Trade* (GATT). Managing disputes, including those in complicated areas such as culture, is likely to become an increasingly important aspect of trade policy.

As its domestic agenda becomes increasingly linked to its international agenda, Canada will need to get better at using each to the benefit of the other. This may involve explicitly changing the domestic policy framework to provide more flexibility for making progress in international rule-making or for improving Canadian access to foreign markets. It certainly suggests finding ways to use relevant policy decisions taken for domestic reasons (e.g., the elimination of the Western Grain Transportation Agency) as a bargaining chip in international negotiations.

Of course, liberalization can also be undertaken on a unilateral basis. Given the importance of imports to the Canadian economy, analysis could usefully be undertaken to

determine whether there are any sectors in which it would make sense for Canada to liberalize even without an exchange of commitments.

The question of inter-provincial barriers to trade will need to be addressed further. There is certainly the perception that some foreign companies have better access to certain regions of the Canadian market than many of our own producers. Inter-provincial barriers also deny Canadian firms the advantages of an integrated domestic market base from which to pursue export opportunities. Trade negotiators will need to know that the Canadian house is in order if they are to participate in the exchange of significant market access commitments.

While our state of knowledge about what may become the subject of new or further international disciplines is incomplete, many of the issues already under discussion are of such a complex, and often controversial, nature that they can be expected to continue to be on the trade agenda in 2005. Pressure from major trading countries and from the experience of trade disputes will bring us to negotiate international disciplines leading to increased integration. Canada's own interests may also push us in this direction as a way of reducing the scope for power politics by major international players.

Specific Trade Policy Areas

We expect that the following range of domestic policies will be subject to international debate in 2005.

Industrial, Agricultural, Services and Other Sectoral Policies

Across the full spectrum of economic activity in Canada, new international disciplines may relate to domestic sectoral policies. The pace of technological change through to 2005 as it applies to most industrial sectors will in large part determine which sectors rise to prominence on the trade policy agenda. There will be continuing pressure from developing countries for liberalization in what have to date been considered sensitive sectors in Canada (e.g. textiles, agriculture), and movement in these areas will be required to sustain these countries' support for liberalization and the multilateral system.

Greater subsidy disciplines at all levels of government will be necessary as countries challenge others' government programs under their own trade remedy regimes or under the *WTO Agreement of Subsidies and Countervailing Measures*. With a new round of negotiations in the *WTO General Agreement on Trade in Services (GATS)* scheduled for 1999/2000, new disciplines on subsidies to service providers may also be forthcoming.

The services area as a whole will likely face important new disciplines. Further negotiation of the GATS will begin in 1999/2000 and may continue through 2005. In addition, sector-specific negotiations in new areas or areas in which there is room for further liberalization will be ongoing. Progress will not necessarily be easy because, despite international consensus that trade in these areas could benefit from liberalization, differences exist as to its potential scope and form.

WTO Negotiations on agriculture are scheduled to resume in 1999. The domestic sensitivities within major traders such as the EU and Japan will likely mean that these negotiations will still be under way in 2005. Canadian sensitivities on the critical issues of supply management and state trading enterprises will need to be assessed. In the NAFTA context, additional pressure can also be expected from, for example, the U.S. dairy and poultry sectors to gain unfettered access to the Canadian market.

Resource industries will also see potential new international disciplines affecting their activities domestically and abroad. Sustainable resource management could become subject to greater international regulation. In many resource areas, such as lumber and fisheries, tariff escalation as value is added to a good will need to be addressed. This will

be important to countries like Canada (and many developing countries) that are attempting to diversify trade beyond primary products.

Standards and Technical Regulations

Standards and technical regulations are important domestic tools for protecting the health and safety of consumers, workers and the environment, and promoting technological advances. These measures are also emerging as important technical barriers to trade, either inadvertently or when employed by domestic interests wishing to protect their market from international competition.

Lack of consistency between standards-related measures in different jurisdictions can mean goods and services are unjustifiably shut out of some markets, or, at least, subject to much higher compliance costs. Over the next ten years the interim solution to deal with the multiplicity of these measures, and mechanisms for assessing conformity with them, will likely take the form of mutual recognition agreements. Difficulties may be encountered with developing countries, for example, where standards may not exist, or with the public perception that other countries' standards may not be sufficiently high or enforced.

Longer term, and likely the subject of negotiations in 2005, the international community will need to focus on developing an effective and enforceable regulatory regime. Questions of harmonization through convergence or improved compatibility, and of risk assessment (e.g. in the sanitary and phyto-sanitary area), will be key.

Structural and Framework Policies

This broad grouping of policies includes competition law, investment and intellectual property. Increasing economic integration will highlight the importance of developing or deepening international rules in these areas.

Competition Policy

Given globalization, the reduction in governmental barriers to trade, and the increased economic importance of transnational enterprises, competition policy is moving up on the agenda, though it has been in the background of international trade discussions for years. As important as multilateral disciplines could be for ensuring that markets remain open, healthy and competitive, there has been some resistance to dealing with them at the multilateral level. The USA has been, and will likely continue to be, particularly reluctant due to their fear that this will lead to an attack on anti-dumping regimes. Discussions on competition policy will now be beginning within the WTO, and it is possible that should a new round of negotiations begin in 1999/2000, this could be on the agenda. Clearly, a deeper understanding of the issues will be required, including among domestic authorities.

Investment

By 2005, it is expected that there will be a Multilateral Agreement on Investment (MAI) negotiated under the aegis of the OECD. At this stage, it is not clear how much liberalization will result from the MAI, what will be carved out and whether non-OECD members will eventually sign on. Regardless, investment discussions will have begun in the WTO to broaden the base of commitment beyond MAI participants. Canada will want to ensure it remains a competitive player in the race to attract, retain and strategically export capital. Canada will, therefore, need to examine the appropriateness of its investment regime, and its assumptions and treatment of domestic sectors that have until now been deemed sensitive to determine how these sectors can best be nurtured.

Intellectual property

The protection of intellectual property (IP), together with its effect on technological and artistic development, is another major issue on the future trade agenda. And laws related to IP protection are a key element of any domestic government agenda to promote investment and innovation. The commercial feasibility of investment and R&D activities is inextricably linked to this issue, and will continue to be so in 2005. Part of the future agenda in this area will be dictated by technology and by the shape of disputes that arise once all countries have implemented the *Agreement on Trade-Related Aspects of Intellectual Property Rights* (TRIPs); on this, the least developed countries have until 2005 to come into compliance.

Social and Environmental Policies

Government measures in the areas of labour, health, environment and human rights will likely be included on the 2005 trade agenda. Of course, there will continue to be controversy about the question of setting international "minimum standards" in the environmental and social areas (e.g. worker safety, child labour, gender equality, human rights). In addition to broader questions such as applying sustainable development principles to resource management, some specific issues (e.g. the ethics of patenting biotechnology) will continue to be debated. The role of governments in providing certain social services, such as health and education, may also be the focus of some attention.

Non-Governmental Players

It is possible that those in the private sector will play a leading role in addressing some of these issues, as has already occurred in certain cases, due to their commitment to particular ideals or due to perceived marketing advantages. They may, for example, develop voluntary codes of conduct. In many cases, if they are to succeed in convincing the public of the benefits of further trade liberalization, governments will need to demonstrate that progress is being made in addressing the root causes of social problems.

On some of these issues, non-government players in other countries are increasingly significant in Canadian trade policy terms. Perceptions, and sometimes misperceptions, of Canadian practices, such as forest management, sealing or fur trapping, have led to (or threatened) consumer boycotts and even pressure for foreign government trade restrictions. Effective approaches to these problems will need to be developed.

Taxation and Monetary Policy

Taxation and monetary policy will also be on the multilateral trade agenda in 2005. For example, this issue could arise as a trade-related concern vis-à-vis the United States, and within the NAFTA framework. As the integration of the North American economy progresses, the issue of "tax competitiveness" at the corporate and individual level will become more of a factor in attracting and retaining capital and labour. Economic integration may also lead to a closer coordination of monetary policy and increased disciplines with the United States. International exchange rate policy may be more explicitly linked to trade, particularly should the European single currency plan be implemented.

Opportunities And Challenges

Managing Canada-U.S. Trade

While particular sectors or regions may not be as heavily reliant on Canada's vast southern neighbour as the average figures suggest, the U.S. will certainly remain our most important trading partner. This means that protecting and enhancing access for Canadian goods and services to the American market will likely remain the top trade policy priority. Since problems can arise in areas that are either not addressed or are insufficiently addressed by trade rules, this priority includes the appropriate broadening and deepening of their coverage.

The U.S.'s own trade agenda will also, therefore, continue to be a key determinant of the Canadian agenda. This includes focus on the specific sectors that the U.S. chooses either to liberalize or protect, and on the markets with which the U.S. decides to develop closer bilateral or regional ties.

The unpredictability of the direction of U.S. trade policy in the future suggests the need for further consideration of the most effective mechanism, or mechanisms, for managing this critical relationship. It is likely, for example, that their use of trade remedies and unilateral trade actions to address political issues will increase over the next decade. The maintenance and further development of Canada's competitive edge in the U.S. over imports from, and exports to, other markets will be at stake. Would bilateral, regional or multilateral negotiations be most effective for addressing outstanding and emerging issues? Is a customs union conceivable or desirable? Research should equip decision-makers to address these questions, recognizing the importance of the Canada-U.S. NAFTA relationship for attracting investment to Canada.

Partnerships for the Future

Canada is involved in numerous multilateral, regional and bilateral economic agreements and institutions. The benefits of membership in such a wide range of organizations - as compared to the danger of expending limited resources trying to be all things to all people - deserves further study. A key question is whether current arrangements are appropriate for the challenges of the future. While the importance of traditional alliances will not necessarily be diminished in 2005, the emergence of new economic powers will create new spheres of influence that may be important for Canada's continued trading success. Domestically, there may be increasing pressure to create and promote economic ties with different regions of the world from Canadian ethnic populations.

Assuming the FTAA is concluded as scheduled by 2005 and liberalization continues through APEC, Canada could benefit from new economic and political linkages. These and other mechanisms will be important for promoting a trade dialogue with developing countries, not only for securing new markets, but for making progress on global trade-related issues. From the perspective of building alliances with these countries, technical assistance by Canada - for example, to those acceding to the WTO - could be an increasingly useful policy instrument to strengthen understanding of, and commitment to, the rules-based trading system, and to promote Canadian ideas and influence.

The tension between regionalism and multilateralism can be expected to remain, or even to grow by 2005. Ensuring that regional arrangements develop in a way that is consistent with the WTO framework will be important for Canada. This is particularly key for protecting our trade interests in regional arrangements that exclude Canada, such as the European Union, The Southern Cone Common Market (Mercosur) and the Association of South-East Asian Nations (ASEAN). It will also be important to understand better these regional arrangements.

While 2005 holds the potential for increased North-South dialogue and cooperation, Canada and other developed countries may need to address the potential for imbalances created in fora such as the WTO where developing countries, which are "self-selected", benefit from certain allowances vis-à-vis WTO disciplines. For example, the use by some developing countries of the 1979 "enabling clause" of the GATT could be problematic in a decade's time when these economies will have made significant advances but may still wish to exercise developing country flexibility.

Expecting the Unexpected

Continued liberalization appears to hold the most promise for growth in Canada in 2005. Expectations for the future agenda outlined in this paper are predicated on the continuation of the trend toward further trade liberalization. Of course, cataclysmic global events, such as significant military conflict, would have a negative impact on the course of liberalization. Less dramatic possibilities, such as China remaining outside of the multilateral trading system, could also change the course of trade liberalization activities in significant way.

In order to see continued liberalization, the major trading countries, particularly the U.S., will need to remain at most committed and at least unopposed to the process. It has been argued that the U.S. is a reluctant multilateralist and a selective supporter of trade liberalization, even when its economy is doing well. In harder economic times, we can expect there to be more and louder protectionist calls in the U.S. It will be important to find ways to convince the American public of the value of maintaining open markets and opening them further, and of developing the rules of the game.

U.S. commitment to the WTO is also key for Canada – a multilateral system that did not include the U.S. would be of far more limited value. One of the reasons that the U.S. has been a relatively willing and active participant in the GATT, and now the WTO, is because of the extent of its influence. But over the course of the next ten years, the balance of power in the WTO will likely undergo significant changes (e.g. with the accession of China and Russia). This could risk diminishing U.S. interest in the WTO.

In addition, U.S. commitment to the WTO could be affected by the nature of the trade disputes in which it is involved. If the U.S. is either unhappy with the kinds of measures that are being challenged (e.g. Helms-Burton) or if it finds it is losing too many disputes, it could refuse to implement panel decisions which would seriously damage the WTO's credibility. Or, although unlikely, it could decide to walk away from the WTO altogether. Worse yet for Canada, although also unlikely, would be if public pressure in the U.S. (e.g. over high unemployment) built up so much that the administration were pressed to walk away from NAFTA.

Forecasts for the agenda in 2005 suggested above also assume that those institutions that are now effective will remain effective, and that Canada's role will remain constant. This may not be the case. For example, it is possible that the growth of WTO membership could diminish the effectiveness of the institution as an instrument for further liberalization.

Canada's historic role has been that of a leader in the development of the rules-based trading system. It has been argued that Canada's effectiveness in convincing other countries to develop trade rules is due in part to the fact that once there are rules, Canada is willing to play by them. The question arises as to whether this "boy scout" image is sustainable as the intersection between trade policy and domestic policy grows. The development of broader and deeper rules will likely increase the incidence of conflicts between domestic policy proposals and trade obligations, and could ultimately have an impact on Canada's effectiveness at the negotiations table.

Unforeseen developments related to key sectors of the Canadian economy could also have significant implications for Canadian trade and the trade agenda. For example,

dramatic technological advances in automobile design or in fuel sources could radically change the face of Canada-U.S. trade, particularly for Ontario.

The Making of a “Canadian” View

In 2005, more Canadian players will have an interest in trade policy. Their interest may be related to what the rules do or do not dictate about the movement of goods, services or capital, or it may be related to what the rules mean for the scope of domestic policy. These players will be governmental, both federal and provincial, and non-governmental, including business people and other special interests. They will include people who understand trade policy, and those who do not. Their commitment will be key for the negotiation and implementation of further trade liberalization.

At the Federal Level

At the federal government level, the emerging trade policy agenda will bring together the work of many different departments. For example, standards issues will be of particular interest to many, including those dealing with health, agriculture, natural resources, transportation, environment and industry. In addition, just as non-trade issues *per se* will likely be prominent on the trade policy agenda, so too will trade-related issues be included on the agenda in non-trade fora. This pressure already exists, for example, in the area of environment and natural resources (e.g. forestry, fish). The challenge, therefore, will be to build a coherent national policy and project it in the appropriate international fora.

The Provinces

At the provincial level, provinces are already calling for a more formal role in trade negotiations. The question is not necessarily one of jurisdiction. The challenge is to speak in a meaningful way with one voice. The issue is effectiveness. The experience of the NAFTA, in particular, has highlighted the importance that provincial government buy-in to the national trade policy agenda, particularly to ensure effective implementation. The process of improving federal-provincial relations in the area of trade policy is already under way, including through the Committee on Trade (C-Trade). Mechanisms that bring together the responsible federal and provincial actors, at the appropriate level, will need to be developed. This will, of course, be particularly important as issues such as environment, labour, subsidies and procurement get tackled due to the provincial role in these areas. Also, since sub-national measures can be important barriers to trade, it will be important for Canada to be able to push for these measures to be covered by trade rules. This will mean that delivering provincial compliance will be key.

Non-Government Players

Given the existing public recognition that issues such as food security are trade issues (e.g. mad cow disease), and the ongoing inclusion of social, environment, moral and national security related issues in the trade policy agenda, it will be necessary to involve a broader range of non-government players in the trade policy area within Canada. The question will need to be addressed of whether existing mechanisms (i.e. the International Trade Advisory Committee – ITAC – and its task forces and the Sector Advisory Groups on International Trade – SAGITs), should they continue to exist, will be sufficient or appropriate.

New players will need to understand the issues and the impact these will have on their specific interests, including those perspectives that compete with their own. It has been argued that a component of Canada's international negotiations strength is the perception around the world that the positions Canada takes are balanced and selected on the basis of extensive domestic consultations. Our ability to develop a cohesive Canadian approach

to non-traditional issues before discussing them internationally could, therefore, be key to our continued credibility. Effective consultation will be a must. Non-government players that feel ownership of the Canadian approach can also be effective promoters of that approach with their counterparts in other countries.

Conclusions

As the forces of globalization encourage further international economic integration, so, too, will the scope of the trade agenda, and the importance of an effective rules-based system increase. For Canada, this will provide important opportunities for creating economic growth and promoting sustainable human development at home and abroad.

Three broad sets of questions will need to be answered early on in order for Canada to be in a position to maximize these opportunities.

- **First, it will be important to have a clear picture of Canadian interests in different sectors and policy areas.** This includes identifying whether there are still Canadian sensitivities in various sectors, and how these can be managed. Where flexibility is required, it includes considering what Canada might be willing to trade off. It also necessitates identifying those issues on which we want or need to play a leadership role internationally.
- **Second, and on the basis of which sectors and policy areas are identified as being key for Canada, analysis will need to be done to identify which countries will be our most important allies and which will obstruct our progress.** It should also focus on how alliances would best be created and maintained. This includes how we further improve our relations with the U.S., how we maintain our position in groupings like the Quad or the G7, and how we build effective partnerships with emerging developing countries.
- **Finally, we will need to find better ways to build consensus amongst the multiplicity of Canadian players with an interest in the trade agenda.** This includes federal government, provincial government and non-government players. Effective consultation that results in real consensus-building will be key to our trade performance, our effectiveness in international negotiations, and, ultimately, our prosperity and development.

The Trade Agenda 2005

Research

1. Why has the participation of small and medium-sized Canadian enterprises in international trade been poor? How can it be improved?
2. How can the volume of trade in services be measured? What about investment? How can consistency in measurement be pursued at the international level? How can intra-firm trade be measured? How do economic indicators need to evolve in order to better capture the state of economic activity?
3. What lessons can be learned about economic integration and the national/sub-national dynamic elsewhere in the world? How do regional arrangements like Mercosur, ASEAN and the EU work?
4. Should Canada seek to harmonize its domestic standards and technical regulations? To harmonize them with the U.S.? In which sectors? What are the costs and benefits of maintaining separate standards and technical regulations? What would an international regulatory regime for standards-related measures look like?
5. Can international competition policy effectively take the place of national anti-dumping laws in free trade areas like NAFTA? What would be the costs and benefits associated with eliminated anti-dumping and focusing on competition policy?
6. How important to Canadian competitiveness and prosperity is outward investment from Canada? How can governments promote outward investment? What are Canada's competitors doing?
7. How does Canada's overall regulatory regime and infrastructure compare to that of our competitors in attracting inward foreign investment?
8. How does trade benefit the importing market?
9. How can we measure effectively the impact of trade policy initiatives on the environment?
10. What are the trade- and investment-distorting aspects of tax policy and how does Canada compare with regard to its principal trade partners and competitors?
11. How important are the remaining inter-provincial trade barriers? Which sectors are most affected? What impact does North American integration have on internal trade issues? How do internal trade barriers affect the international competitive position of Canadian exporters?

Policy Questions

1. What is the most effective way to manage Canada-U.S. trade relations in the future? What form might further liberalization take?
2. Which sectors, if any, might it make sense to liberalize unilaterally?
3. Are there sensitive sectors in Canada? Are they the same as those of our major trading partners? How might this affect future trade policy negotiations? In international negotiations, what can Canada give and what must we get in return?
4. Is Canada's foreign investment regime still appropriate in the current and future global context?
5. When and how can the necessary coalitions be put together to enable Canada to move on the agricultural questions of supply management and state trading enterprises?
6. How could a more targeted use of official development assistance help meet international development objectives *and* contribute to Canadian prosperity by supporting trade and investment? Should it focus on important new trade and investment markets? What is the role of technical assistance?
7. Is there a role for governments in trade promotion? If so, what is it? Does it include export financing and, if so, what form?
8. How can non-government boycotts of Canadian products be managed effectively?
9. What opportunities are there to use the trade policy agenda to promote environmental improvements?
10. Which issues on the trade agenda will be of greatest interest to provincial governments? Are there other issues in which the federal government will need to have provincial support? Do we have the right mechanisms? How can we improve federal-provincial discussions on these issues, including in the C-Trade?
11. What issues on the trade agenda will be of broad public interest? What process can be developed to ensure that public opinion is well-informed? How can current processes (SAGITs, ITAC) for non-governmental consultation be improved?

6. Economic Integration and Domestic Policy

The Issue

The integration of the Canadian economy into the global economy has been an ongoing process throughout much of the post-war period. Initially, economic integration largely took the form of strengthening ties with the United States: the importance of this relationship was intensified with the implementation of the Canada-United States Free Trade Agreement (FTA) in 1988, and its extension to Mexico with the North American Free Trade Agreement (NAFTA) in 1992.

The next ten years will undoubtedly witness a further and possibly more rapid integration of Canada into the world economy. This will bring with it many challenges, and not only with respect to economic policies. Many have argued that, with globalization, countries lose control of domestic policies and sovereignty.

This paper explores the experience of Canada in this regard as a result of the integration of the U.S. and Canadian economies over many years, and looks in particular at the impact of FTA and NAFTA.

Impact on Domestic Policy: Basic Questions

Throughout the negotiation of both the FTA and NAFTA, strong concerns were voiced about the impact on domestic policy of intensifying economic links with the United States, and later Mexico. First, it has been argued that, as a result of increased international pressure, Canada has already lost the ability to conduct counter-cyclical monetary and fiscal policy to smooth economic fluctuations. Moreover, it is also feared that trade liberalisation will adversely effect Canadian labour market conditions and reduce Canada's ability to maintain its social safety net and labour market regulations. The intensification of competitive pressure from countries with less generous social programs (and commensurately lower tax burdens) and lower wage rates would precipitate calls for action to improve Canada's competitive position. As a consequence, there would be a convergence of social policies, wages and working conditions in general toward the lower levels of our main competitors (or worse, a race to the bottom as countries tried to maintain/improve their competitive position).

This scenario is based on the assumption that social programs represent nothing more than a cost of doing business and that little or no benefit is assigned to these programs. However, little is really known of the role of social programs in effecting investment location decisions. In fact, it could be argued that some government programs offer cost advantages (i.e. the Canadian health care system is considerably less expensive than the private-sector health insurance available in the United States); while others may contribute to sustaining a comparative advantage (i.e. investment in education and training a skilled workforce). Consequently, well designed programs may offer advantages and serve to attract investment.

The debate over policy convergence has been rekindled in the face of an acceleration in global economic integration. However, there is a view that the context has fundamentally changed from our past experience with many less developed economies now full participants in the current round of globalization. Therefore, today's concerns can be more precisely put as:

- ☐ what are the implications of increasing trade and competition with developing countries which enjoy cheaper labour and in which working conditions are markedly different from those in the more developed countries?
- ☐ what factors influence the investment decisions of multinational corporations?

Reviewing Canadian Experience

The gradual integration of the Canadian and U.S. economies over the post-war period offers an opportunity to judge whether policies have in fact converged. Unfortunately, there has been little, if any, comprehensive comparative analysis of developments since the implementation of the FTA and NAFTA. The following section will present a partial view of developments since that time.

Thereafter, and in light of the preliminary conclusions of this exercise, it will be possible to discuss issues related more directly to the prospects for the medium term and implications for Canada.

Integration into the North American Economy

The implications of international economic integration on governments' ability to maintain sovereignty over domestic policies is a fundamental question which needs to be answered as international economic integration continues at a rapid pace. There is no doubt that strengthening economic ties between Canada, the United States and other countries has contributed to the drive for fiscal restraint in Canada as international financial markets exact an increasingly high cost on governments and countries which fail in their attempts to maintain sound fiscal policies. However, in addition to an overall sound fiscal position, heightened competitive pressures (either direct or indirect) can prompt calls for a lower level of taxation and consequently a lower level of government spending as well as lesser government regulation.

It has also been suggested¹ that the change in the direction of trade flows will have an effect on federal/provincial arrangements. The increase in trade with other countries and the commensurate relative decline in the importance of trade between the regions of Canada could reduce the perceived benefit associated with fiscal transfers between provinces and prompt calls for further reductions in these transfers. Such a reduction could have an adverse impact on the ability of certain provinces to maintain current or desired levels of social programs.

Experiences in the Period 1960 to 1987

These arguments were presented as part of the campaign against the FTA and NAFTA. However, the Canadian and U.S. economies had become gradually more integrated over the entire post-war period and policy developments prior to the FTA and NAFTA did not unambiguously support these concerns. A 1992 study² reviewed the evolution of a range of social programs in the two countries from 1960 to 1987 and found evidence of convergence in some policies and divergence in others.

- ☐ Developments in the field of health care offer the most dramatic contrast between the two countries, and that contrast has become more marked in recent years. In particular, the Canadian single-payer system has coped much better with the

rising cost of health care that the U.S. system. Consequently, these pressures have resulted in restrictive state rules which have curtailed the public program's coverage. As a result, the percentage of Americans with no health insurance coverage rose by more than a third from 1979 to 1986, and the numbers with inadequate coverage continue to grow.

- ❑ Similarly, developments in public pension schemes have diverged in Canada and the United States. Changes in U.S. legislation over the last 10 years will reduce the replacement rates for the low-income recipients more than for the average earners. In Canada, however, the redistributive impact of the system increased as a result of a significant enrichment of the Guaranteed Income Supplement in the early 1980s and a clawback of Old Age Security benefits from high-income earners late in the decade.
- ❑ Developments in social assistance programs are more mixed (Table 1). The level of U.S. public assistance benefits has undergone a trend decline since the mid-1970s. In Canada, provincial welfare benefit levels declined in some provinces, while there were particularly strong increases in Ontario and Quebec. These increases were, however, in large part deficit financed and have subsequently proven to be unsustainable.
- ❑ Given these developments, the difference in the redistributive role of government grew during the 1980s. Table 2 illustrates this pattern for child poverty and indicates that this difference grew in part due to an enrichment of programs in the Canadian system, but primarily from the weakening of the U.S. system. Overall, despite globalization pressures, Canada seems to have managed to preserve an effective redistributive role. As depicted in Chart 1, growing earnings inequality has been successfully offset by government transfers, while inequality has continued to grow in the United States.

Experiences since FTA and NAFTA

Since FTA and NAFTA, trade between Canada and the United States has reached unprecedented levels. In 1995, the share of Canada's exports going to the United States was about 80 per cent, and was equal to 26 per cent of GDP. Similarly, imports from the United States accounted for about 75 per cent of total imports. Unfortunately, there has been little analysis done since data for the post-FTA/NAFTA period have become available. Nevertheless, it may be possible to glean some information from the general trends in Canada in the 1990s.

During this period, there has been a marked retrenchment in many of Canada's social programs.

First, the Canadian unemployment insurance program (UI/EI) has undergone successive reforms during the 1990s that have reduced the overall generosity of the program. Chart 2 clearly illustrates a convergence in the two programs through to 1995, particularly with respect to the coverage/ accessibility of the program. The beneficiary-to-unemployed ratio has declined precipitously since 1991, falling to a level not before seen in the history of the UI program (post-1971). The most recent Employment Insurance reforms has contributed to further narrowing the gap between the Canadian and U.S. programs in a number of ways. While the U.S. system has remained largely unchanged, recent reforms in Canada have further restricted access to the EI program and have reduced the benefit levels and duration for some individuals.

In addition, deep cuts and sweeping changes are happening to social assistance systems in virtually all provinces (benefit levels were cut by approximately 10 per cent in British Columbia, 13 per cent in Alberta and more than 20 per cent in Ontario). Moreover, cuts in many provinces were accompanied by significant eligibility restrictions.

Policy Convergence

The experience of the last few years provides considerable anecdotal evidence of convergence between Canadian and U.S. policies during the period of rapidly increasing trade between the two countries. In spite of this evidence, however, we should not make the mistake of immediately drawing a causal link. Convergence may arise from parallel domestic factors (such as a need to address sizeable fiscal problems) or by the simultaneous adoption of international best practices. Clearly, there is a need to conduct a thorough review of developments with a view to developing a complete picture of recent events and gaining a better understanding of the motivations for recent developments and their impact on capital flows. Only with this information can we assess and anticipate the implications of globalization and identify best practices in an integrated world.

Integration into the Global Economy

Concerns about the erosion of Canadian social programs has been intensified by the current and prospective pace of globalization. In addition to the pressures currently being exerted on the Canadian economy by competition from U.S. producers, globalization implies a more direct and more intense competition with developing countries characterised by substantially lower wages and working conditions far below our own. Many fear that this will contribute to an even faster deterioration of the Canadian welfare state. That said, the relatively limited trade between Canada and less developed countries and the growing importance of trade with the United States have led some to suggest that concerns over the implications of globalization are exaggerated. This statement is likely incorrect for two reasons. First, the magnitude of trade flows can be a very misleading indicator of competitive pressures. The mere threat of production moving to lower cost countries could be sufficient to put downward pressure on working conditions and on the compensation of workers in developed countries. Second, while the United States is by far our most important trading partner, external competitive pressures could be transmitted to Canada either directly (through competition with developing countries for the U.S. market) or indirectly (through the impact of competition between U.S. and foreign firms on U.S. wages and working conditions).

Therefore, the appropriate measure of the exposure of the Canadian economy to competitive forces is not defined in terms of the size or direction of bilateral trade flows. A better measure, albeit still imperfect, would be to proxy exposure through a measure of openness such as the sum of imports and exports expressed as a percentage of GDP. Chart 4 shows that the rapid increase in Canada-U.S. trade in the early 1990s was not simply a diversion of trade resulting from FTA/NAFTA. Following a trend rise through the 1970s and 1980s, imports plus exports rose sharply from 41 per cent of GDP in 1991 to 62 per cent in 1995.

Implications of Closer Links with Developing Countries

Fears about the impacts of stronger economic ties with developing countries are countered by claims that a relatively limited proportion of the economy would be affected (i.e. their comparative advantage exists only in sectors characterised by relatively low skills requirements, and which are relatively labour intensive). Furthermore, the theory of comparative advantage would suggest that new higher-wage jobs would be created in capital intensive, high-skilled industries in developed countries. There is, however, little concrete information on the full impact of trade liberalisation with developing countries. Some estimates place the drop in demand for unskilled labour in Canada and the United States following NAFTA as high as 15 per cent³, while other studies argue that the comparative advantage of developing countries is not limited only to unskilled labour. Conversely, other studies⁴ suggest a rather more limited impact and argue that displacement of unskilled workers is only a temporary phenomenon.

The International Labour Organization, in its *World Employment 1996/1997* report, suggests that national policies remain of paramount importance in determining levels of employment and working conditions. It argues that a viable and preferable alternative to lowering wages and working conditions to meet competitive pressures is raising labour productivity through investment in skill development, exploiting the productivity-raising potential of high labour standards and cooperative forms of work organisation, and productivity-enhancing investment in infrastructure and research and development.

The current debate in economic literature relates to whether the current problems of low-skilled workers are linked to technology or trade. The risk is that trade be singled out as the villain. Evidence so far usually favours technology as the major source of bias against low-skilled workers in industrialized countries.

The Debate on Trade and Labour Standards

Core Labour Standards

A subset of the questions raised with respect to increased exposure to trade with developing countries is the issue of the respect of Core Labour Standards (CLS)⁵. In many developed countries, there is a perception that their companies are placed at a competitive disadvantage vis-à-vis companies in developing countries that do not (for whatever reason) respect CLS. Some developed countries have, in the past, proposed the inclusion of a Social Clause in WTO agreements, in order to be able to use punitive trade measures against countries which allow violations of these standards.

At this time, the chances of introducing a Social Clause in WTO agreements are next to nil by virtue of the united objections of developing countries. That said, the state of knowledge about CLS is extremely limited and does not allow us to evaluate the merits of either a Social Clause or any other means of meeting a dual objective of promoting respect for CLS and eliminating any unfair competitive advantage enjoyed by countries derived from violations of CLS.

OECD Study on Trade and Labour Standards

The most ambitious and comprehensive study to date on the relationship between trade and CLS is the work conducted by the OECD⁶. First, the study attempts to determine if the level of adherence to CLS is a determining factor in a country's trade performance. On this question, the OECD finds that there is little conclusive evidence to support this claim. Their analysis shows that countries with low labour standards have not systematically recorded better trade performances than countries characterised by a high level of labour standards. Furthermore, the trade performance of countries which have experienced marked improvements in the respect for CLS does not appear to have deteriorated as a result of these improvements. However, the analysis by the OECD can only be described as a good first step to better understanding these complex issues. First, given important data limitations the assessment of the impact of CLS on countries' trade performances was limited to the review of the degree of respect for the rights of freedom of association and collective bargaining on a country's trade performance. Clearly, the analysis needs to be broadened to include the other core labour standards and could potentially be extended to cover issues related to health and safety standards.

The study of the effect of CLS on investment location decisions of multinationals is equally inconclusive. The study of aggregate investment flows did not appear to support the view that low labour standards could be used as an incentive to attract foreign investments. This is related to the fact that while poor labour standards offered a cost advantage, investors also found them to be related to low skills and low productivity levels. Therefore, the level of labour standards is likely to have very different effects on

different sectors. Low labour costs associated with low standards are only likely to attract investment by firms in certain labour-intensive, low-skill sectors. Conversely, low standards might discourage investment in more capital-intensive sectors. Again, the methodological problems associated with the OECD study imply that considerable further work is required to better understand the implications of intensifying economic links with developing countries.

The OECD study also indicated that there was evidence that respect of CLS was closely linked to the level of economic development and the degree of integration of developing countries into the global economy. Therefore, it might be expected that greater participation of developing countries on the international scene might create pressures for a convergence of policies in many fields toward OECD country standards. While not an issue for domestic policy, this argues favourably for concerted measures on the part of developed countries to facilitate progress in this domain. However, at this time, neither the institutional framework nor the knowledge required to undertake this task are available. Even the ILO, the international organisation responsible for the promotion of workers' rights and social justice, does not have the monitoring capability to adequately address these complex issues. Moreover, it has only just begun elaborating its work plan on the social dimensions of liberalisation of trade.

Future Studies

The areas of future work to make progress in the promotion of CLS are:

- a review of ILO machinery to support fundamental workers rights;
- a study of the use of labour market incentives to attract foreign direct investment; and
- an examination of the linkages between labour standards, productivity and economic development.

It is therefore essential that Canada focus its attention on promoting and developing this work in the appropriate international fora.

The Need for Research

For Canada to make the most of its opportunities for greater integration into the world economy, it is essential that we better understand the pressures this evolution exerts on domestic policies and the mechanisms through which these pressures come to bear.

This knowledge is required to identify international best practices in domestic policies that can have a direct impact on costs, international competitiveness and the attractiveness of Canada as a location for capital. These insights could then guide the development of policies which promote competitiveness while balancing potential negative impacts on social policies.

The implementation of the FTA and its subsequent extension to NAFTA may serve as a valuable source of information in evaluating the implications of external pressures on the Canadian economy and on Canada's policies.

The question of whether integration into the world economy will result in policy convergence remains to be answered. However, integration into the world economy has fundamentally changed the context in which policies are to be developed. Whatever policies Canada chooses to pursue in response to globalization, we need to develop a base of knowledge which is far more comprehensive than that presently available.

Conclusions

Domestic policies, whether economic or social, which have an impact on the cost of production, through regulation or taxation, affect Canadian competitiveness. This is undeniable. Therefore, increased exposure to foreign competitive pressures influences domestic policies through its effect on economic performance. What is less clear, however, is whether these pressures lead to convergence of policies or simply call for the adaptation of policies to a changing competitive environment. In order to answer this question, it is essential to understand the influence of these pressures on economic outcomes in Canada, the mechanisms through which these pressures manifest themselves, to gain a better understanding of Canada's competitive advantage and the direction of trends which create these pressures.

Economic Integration and Domestic Policy – Research Agenda

For Canada to make the most of its opportunities for greater integration into the world economy, it is essential that we better understand the pressures this evolution exerts on domestic policies and the mechanisms through which these pressures come to bear.

Experience to date of the **impact of trade liberalisation** on Canada's economic performance and the role of domestic policies in shaping trade and investment outcomes suggests the following questions for further research:

1. What determines the location of foreign direct investment?
2. Whether a return to a sound fiscal position will allow Canada to use monetary and fiscal policies to smooth economic fluctuations
3. Whether social programs have acted as a deterrent to foreign investment and if so in what way? Alternatively, whether these programs, if appropriately designed, can serve to attract investment
4. Any evidence of a change in the direction of provincial trade flows and its impact on the role and desirability of federal/provincial transfers.

A second area of concern is likely trends over the medium term. With the increasing importance of developing countries in international trade, we must acquire a better understanding of the likely trends in these countries. We need to know more about:

1. How quickly greater integration of these countries into the global marketplace might result in an increase in wage rates and an improvement of working conditions
2. What determines the investment decisions of multinational enterprises. In particular, what role do labour quality, costs, and working conditions play in these decisions.

Third, unlike wages, it may be possible to influence working conditions in developing countries. The promotion of a set of core labour standards is an objective supported worldwide for both humanitarian and economic reasons.

1. Canada should, in consultation with relevant countries and international institutions, participate in research efforts to identify the best means of promoting and enforcing respect for these standards.

Notes

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- ¹ Courchene, Thomas and Arthur Stewart, "Financing Social Policy: Observations and Challenges", in *Social Policy in the Global Economy*, edited by T. Hunsley, pages 129-154, 1992.
 - ² Banting, Keith, "Economic Integration and Social Policy: Canada and the United States", in *Social Policy in the Global Economy*, edited by T. Hunsley, pages 22-43, 1992.
 - ³ Wood, Adrian, "North-South Trade: Employment and Inequality", Oxford Clarendon Press, 1994.
 - ⁴ For example, Krugman, P., "Competitiveness: A dangerous obsession", in *Foreign Affairs*, Mar./Apr. 1994.
 - ⁵ Core labour standards are generally recognized to include: the rights of freedom of association and collective bargaining; the prohibition of forced labour and exploitative child labour; and the elimination of discrimination in employment.
 - ⁶ Trade, Employment and Labour Standards: A study of core workers' rights and international trade, OECD, Paris, May 1996.

7. Technology and the Knowledge-Based Society

The Issue

The new knowledge-based society is being hailed as equivalent in scope and scale to the Industrial Revolution which transformed the economy and society at the turn of the last century. In developed parts of the globe, technology is pervasive. It has changed the way we work and the content of work. Intelligent transportation technologies promise high speed mass transit and herald the advent of the megalopolis. Information technologies offer unprecedented access to information, new learning tools and new cultural and entertainment forms. New industries are being created and old ones retooled.

Many of the world's leading economists and management experts concur that the changes we are witnessing -- both in national and the global economies -- are not of the traditional business cycle type, but are instead deeper and more fundamental transformations of the forces and factors of production with significant societal and cultural implications. These transformations have been characterized in various ways but can be broadly captured by the term knowledge-based society". For the purposes of this paper the knowledge-based society is characterized by three interrelated phenomena:

- the global reach of information and computer communications systems;
- knowledge-based economic growth where comparative advantage is derived from the capability to create, acquire, accumulate and exploit knowledge, and,
- the social and cultural transformations associated with technology and knowledge-based growth.

This paper explores the principal international trends concerning the knowledge-based society.¹ Inevitably it touches upon some of the same issues raised in the *Growth, Human Development and Social Cohesion* paper, since a major focus of that exercise was the global phenomenon of the knowledge-based society and its domestic implications. The present paper, while providing additional international context to some of the issues raised in the earlier paper, also examines specifically international dimensions of the knowledge-based society, including issues of governance, national security and military aspects, and the implications for the developing world. In order to narrow the scope of the paper, information and communications technologies are its principal focus, although other technologies (e.g. natural resources technologies) are touched on as appropriate. Biotechnology is addressed in the paper on the trade agenda.

International Trends and Developments

Economic Transformations

The role of technology and innovation in the economy is the subject of considerable debate among economists. Some, notably Richard Lipsey and Paul Romer,² have proposed that technology -- or rather the *innovation* which results in technological development -- is the whole motor behind growth. Sustaining a society oriented around innovation requires a constant infusion of new knowledge, hence the importance of research and development in the new economy.

Economists agree, however, that widespread use of information and communication technologies is dramatically changing the global economy. Multinationals possess increasing capacity to distribute production facilities worldwide and financial markets the power to transfer billions in capital rapidly across national boundaries. Knowledge-intensive sectors account for more than 50% of GDP in the major OECD economies. During the last decade the high technology share of OECD manufacturing production and exports has more than doubled to reach 20-25% of the total.

The sectors generally identified as having growth potential in the new economy are those characterized by innovation. These include, for example, computers and semiconductor technologies, health and medical technologies, communications and telecommunications technologies,³ as well as those associated with the "Green Growth" agenda, including, pre-fabricated housing, clean production technologies, environmental technologies, and intelligent transportation systems.

Some suggest that the technologies themselves may ultimately decline in their overall contribution to economic growth and that future growth may be more oriented around the development of content for the knowledge-based society. A study prepared for Industry Canada offered the following perspective:

... future growth of the Global Information Infrastructure-Global Information Society will be based on the creation and delivery of content to consumers, businesses, and governments and ... jobs associated with content will emerge in traditional cultural industries, and in industries outside those defined as the world information industry today.⁴

It is estimated, for example, that there will be over 10 million people working in the software industries in the OECD countries by 2005.⁵ In Canada, recent employment statistics for the information technology sector showed a drop in employment between 1990 and 1995 in the computer, electronics, telephone and cable companies despite the increase in contribution to GDP from 5.5% in 1990 to 7.6% in 1995.⁶

The future prospects of the manufacturing and services sectors, as well as those of traditional resource-based sectors, are tied, in the view of most observers, to the extent to which they are able to incorporate knowledge into their production processes. For example, as countries increasingly resort to non-tariff barriers such as environmental and health regulations to protect domestic natural resource industries, the supplier with the most efficient environmental technologies may have a comparative advantage.

The North/South Technology Gap

It is obvious, however, that not all countries have equal access to information and communications technologies and this gap may be widening. Currently about 93% of the world market for information technology is in the OECD with the remaining 7% in the developing world. Moreover, there are today only 600 million telephone numbers for 6

billion people. Of these phones, 75% are in North America, Western Europe and Japan even though these regions account for only 15% percent of the global population.⁷ As South African Deputy President Thabo Mbeki pointed out in his keynote address to the G7 Information Society Conference in February 1995, "half of humanity has never made a telephone call."

The information society therefore is global in scope but far from global in reach. Without improving the underlying conditions that create disparities in access to knowledge, technology and human capital, the benefits accruing from the knowledge-based society will remain concentrated, with whole nations, regions and segments of societies risk being further marginalized from emerging economic trends. The developing world has placed these issues firmly on the international agenda, as evidenced by the recent "Information Society and Development Conference" in South Africa and a conference to be hosted by World Bank in Toronto in June 1997. These are intended to develop a shared vision of the knowledge-based society and to ensure that the developing world is better positioned to reap the benefits.

Transformations to work and human development

The human development aspects of the knowledge-based society are sobering. The jobs that are created normally require the capacity to deploy information, use complex technology and continuously upgrade knowledge, skills and qualifications. "Knowledge workers" have become the elite in the new economy. As trading blocks evolve, and labour mobility rights are enlarged, these professionals will tend to flow towards the highest bidder for their skills. Thus the investment made by any society in its knowledge workers is no guarantee of their continued presence, activity, or contribution. The question of loyalty or attachment to nation states becomes, at the same time, of lesser importance to the knowledge worker and of greater importance to the state.

The knowledge society has also brought about massive worker displacement and job loss, with the lower wage service sector absorbing only some of the casualties. For example, in the United States the proportion of factory workers has declined over the past thirty years from 33 percent to 17 percent of the working population and it is estimated that by the year 2020 less than 2 percent of the entire global workforce will still be engaged in factory work.⁸

One school of thought holds that this is due to the phenomenon of "creative destruction", which refers to obsolescence of equipment, companies, industries, training and employees required by innovation.⁹ A more dramatic perspective is offered by Jeremy Rifkin in *The End of Work*.¹⁰ He claims that the market system of production has now made workers and work redundant; that world unemployment and underemployment will mushroom; that an under-class will form; and that the concepts of productive work and a productive life will be turned on their heads. While Rifkin may overstate the case, the pace of change in the knowledge-based society means, at the very least, that there is less and less time to replace the jobs that are being lost and to retrain people. Regions, countries and population segments which enter the knowledge-based society with a human capital deficit and without adequate systems to instil basic building blocks of education and human development, notably literacy and numeracy, are at even more of a disadvantage. While the potential exists for developing countries to use information technologies to "leapfrog" to a higher stage of development, groups at basic levels of literacy and living standards will have substantial prerequisites before being able to share in the benefits of the knowledge-based society.

The Promise of Global Interconnectivity

The Internet

Of all the aspects of the knowledge-based society, the Internet has likely generated the most hype, promise and peril. There is general agreement that the Internet heralds a new era in communications with far-reaching impacts -- social, economic and cultural -- on a local, national and global scale. The Internet is an important communication breakthrough providing rapid, text-based, interactive communication throughout the world, and enabling both one-to-one and many-to-many communications capabilities. The current user population is between 30 and 50 million. In the United States home use more than doubled in the last year with about 12 percent of US households claiming to have used the Web in the last month.¹¹

Most observers believe that the Internet is still in its infancy. There are several areas in which it is developing. These include the development of new applications, include web advertising and "electronic commerce", improved ways of aggregating and searching for information, and improvements to existing technology to enable the Internet to challenge television in the area of visual entertainment.

The social and cultural implications of the Internet are significant. Douglas Rushkoff argues that the Internet, by virtue of its global, democratic, egalitarian and participatory dimensions is organic in nature, pursuing the "natural agenda of the planet."¹² Indeed, the Internet is enabling linkages to be established among previously unconnected communities of interest and is fostering the emergence of a global commons and global civil society. Others maintain that this same phenomena is serving to further fragment societies and the global community, and that it is contributing to cultural homogenization. As yet, however, the Internet remains primarily an American-dominated network with 63% of 3.2 million computer hosts originating from the United States, although this profile is changing daily.¹³

New Forms of Spatial Organization

The industrial revolution and resulting labour specialization caused people to live in larger cities where access to employment and business could be maximized. There are indications that the demand for knowledge workers in the knowledge-based society will also transform spatial organization. Areas with a competitive edge will be those which, by virtue of communications technologies and high speed transportation links, can draw upon a large pool of knowledge workers across a large geographic area or megalopolis. A recent study of commuting patterns in the United States between 1980 and 1990 found that commuting between major cities was growing at twice the rate of suburb to main city commuting.¹⁴

In Europe and Japan, governments are responding to this trend by transforming the traditional urban pattern and linking cities through advanced telecommunications and transport systems. These hub and spoke urban networks, which often cross political borders thereby enhancing mutual dependence between linked areas, are redefining the nature of inter/intra urban transport.¹⁵

A Shifting Cultural Landscape

The knowledge-based society, by virtue of a vast array of information and communications technologies, offers important opportunities to protect, develop and project cultural identities and market cultural products. At the same time, the knowledge-

based society can enable large population masses to dominate smaller cultures and define the emerging "global culture" by sheer volume of content. For example, the increasing vertical and horizontal concentration of the media has followed the convergence of broadcasting with telecommunications and content industries brought about by technological innovation. This serves to concentrate control over the media in fewer and fewer hands and may indirectly affect the circulation of ideas and perspectives vital to a functioning democracy.

A second challenge in an environment increasingly characterized by "narrowcasting" to specific market segments, is the potential for reduced sharing of information, values and experience among an entire citizenry. This contrasts with "broadcasting", which is aimed at a more general audience with more general messages.

Competing Forces of Cohesion and Fragmentation

The utopian vision of the knowledge-based society holds that it will work to surmount barriers of language, culture and geography, reduce disparities of income and opportunity, promote universal values of democratic participation, facilitate a rapprochement between the developing and developed worlds, and enable indigenous and minority cultures to flourish. In short, the information revolution, many believe, has the potential to promote social cohesion both within societies as well as between them.

Yet there are also tendencies in the opposite direction. Canadian technology analyst Arthur Kroker refers to the emergence of a "virtual class", a high-tech bourgeoisie which exploits a neo-proletariat which he graphically labels "surplus flesh".¹⁶ There are several dimensions to the access problem. Those already marginalized on the basis of class or economic opportunity are at disadvantage.¹⁷ Gender may also be a factor. The chart illustrates that men are more frequent Internet users than are women. Language is an additional barrier to participation. The growth of communications technologies has acted to reduce the number of *lingua francas* in the world.¹⁸ Indeed, some argue that only English is likely to survive over the long term as an international lingua franca.

Changing Dimensions of Governance

The knowledge-based society poses important issues of governance, challenging the capacity of nation states to regulate on the one hand, but providing new vehicles to serve citizens and to exercise influence in the world community on the other. As a global phenomenon the knowledge-based society will increasingly be regulated at the international level. The protection of intellectual property, for example, is rendered considerably more difficult in a digital environment where illegal copying and transmission of a product to millions around the world can be accomplished instantaneously.¹⁹ To be effective, national copyright regimes and their enforcement must therefore be coordinated through international agreements such as that recently established at the World Intellectual Property organization to address copyright on the Internet. This will apply to many other issues of regulation in the knowledge-based society, including the regulation of offensive content, protection of privacy, and taxation of the knowledge economy (e.g. the electronic marketplace).

At the same time, the knowledge-based society enables the provision of responsive, client-centred government to citizens. One vision is that of "triple A government" – anytime, anywhere, anything.²⁰ This concept, which is taking root in several parts of the world, implies that service is provided to the public from any location at any time, work is performed from any location at any time, and cross-government solutions emerge naturally without the client being aware of the structures.

A third way in which the knowledge-based society is changing governance is in the pursuit of the national interest in the global community. In an environment where national interests are advanced increasingly through the use of "soft power", that is through knowledge and influence, information and communication technologies are becoming a vital element of international relations and, by extension, trade success. Countries are increasingly adopting a strategic approach to their use of information technologies to advance their interests and values internationally. The efficient use of "soft power" can represent a powerful element of comparative advantage in the modern world.

New Twists on National Security and Geopolitics

The knowledge-based society is also transforming the concepts of national security, national assets, and warfare, and the means by which nation states protect their sovereignty and their citizenry. As technology and knowledge increasingly underpin the global economy, they become an attractive commodity for countries, groups and individuals. Moreover, widespread dependence by governments and the private sector on computers and public communication links means that a country's entire information infrastructure becomes a matter of national security. In this climate, the possibility of "information warfare" through the attack on or manipulation of information technologies becomes very real.

The emergence of intelligent military technologies is also transforming traditional geopolitical conflict. The exploitation of space-based systems for surveillance and communications is giving a significant advantage to states with access to these systems. Communications, computers and information management are altering command and control functions, allowing military forces to provide a more rapid, effective and flexible response. Moreover, nuclear, biological and chemical weapons and ballistic weapons technologies are spreading and will likely continue to do so to 2005. The possibility of non-state actors acquiring at least crude forms of these weapons cannot be discounted.

Opportunities and Challenges for Canada to 2005

Investing in Knowledge Workers

The dependence of firms and nations on "knowledge workers" means that investment in education and training may be the most effective means by which governments can influence the innovation process, the heart of the new economy.²¹ Canada's performance in creating knowledge workers is commendable by some indicators. The Global Competitiveness Report of the Geneva-based World Competitiveness Institute ranked Canada first among forty-nine countries in the proportion of knowledge workers within the workforce.²² Yet a recent international survey of functional literacy skills (prose, document, and quantitative skills) among adults found that Canada's performance fell in the middle of the pack of seven countries, with some 40% of the overall Canadian (and US) population showing weak literacy abilities.²³ Clearly individuals lacking basic human capital will be increasingly marginalized in the knowledge-based society.

Learning is becoming a lifelong activity taking place in schools, colleges and universities, but also at home, in the workplace and in the community. Each year in Canada over 7 million adults (35% of the adult population) participate in some form of organized education or training activity and more indicate they would do so if they could obtain access.²⁴ Recent polls confirm that education and learning are high priorities for Canadians. Information technologies are an important means of meeting lifelong learning needs. Over the coming decade a variety of policy issues will need to be addressed.

These include: how best to encourage the development and application of learning technologies; how to address the shortage of appropriate technology based learning tools; how to respond to concerns about the cultural and economic impact of foreign learning materials increasingly available in Canada; how to support the development of French language and culturally appropriate learning materials that make use of learning technologies; and how to help Canadian organizations and businesses that develop learning technologies, products and services, take advantage of new opportunities at home and abroad.

Another set of policy issues arises concerning the retention of knowledge workers. The income tax system, standard approaches to downsizing in governments and the private sector, immigration policies, and a whole range of policies which affect quality of life and social cohesion in Canada may need to be examined and modified as the attraction of knowledge workers becomes a priority. Moreover, as Canadian cities compete to attract knowledge workers transportation policies may need to be revised to take into account newly emerging models of hub and spoke networks such as the emerging Toronto-Montreal-Ottawa corridor and the comparative advantages they may provide.

Developing R&D Capacity

Canada's research and development capacity will also be an important policy issue in the coming decade. While Canada is a world leader in exporting certain technologies, (e.g. geomatics, information technologies) Canada relies more heavily on foreign technology than any other G7 country, importing over 65% of total technology compared to 10% in the United States and Japan.²⁵ Moreover, Canadian businesses, particularly small and medium-sized enterprises (SMEs) have not embraced technology to the extent that our principal competitors have. A recent Statistics Canada study demonstrated that only half of Canadian firms with 20 to 99 employees used at least one advanced technology in production. In contrast, 67% of similarly-sized US firms used at least one advanced technology.²⁶ This gap may contribute to a significant comparative disadvantage, particularly in light of the growing integration of the North American market which in turn is fostering greater integration of production processes.

This situation has significant policy implications. It suggests first, the need to develop an appropriate "make or buy" policy with respect to technology. It may also raise other policy issues such as the tax system (e.g. R&D incentives), the structure and dynamism of internal markets, and regulatory and framework policies such as intellectual property. It also requires facilitating access to technology by Canadian businesses, particularly those who may lack access to new technologies (e.g. the agricultural sector, Aboriginal businesses).

Challenge: To enhance Canada's comparative advantage by adapting human development and innovation systems and infrastructures

Technology and Culture

The knowledge-based society is prompting a rapprochement between science, technology and culture. Technological advances are resulting in a vast array of tools at the disposal of creators, new production enhancements such as computer generated special effects, new media forms such as multimedia and CD ROM, new delivery vehicles such as the Internet and new venues for exhibition such as the IMAX theatre. These innovations will provide increased – and, in some cases, less expensive – opportunities for minority communities to retain and diffuse their cultures and potentially contribute

more directly to an evolving cultural mainstream. Moreover, innovation in the cultural sector will have important economic potential into the next decade, providing that a significant portion of the jobs developing content consumed by Canadians remain in Canada.

A key policy issue will be how best to balance the imperative of consumer choice of the best information and entertainment the world has to offer, with the need to ensure a space for content which reflects our own society in its diversity. In Canada's case this is a continuing challenge in new guises. A new twist on this issue is the policy challenge presented by increasing vertical and horizontal concentration of ownership and control of the media, possibly serving to reduce the interplay of ideas and information vital to a fully functioning democracy.

Opportunity: To develop, and market Canadian cultural products and to promote distinctive Canadian cultural expression

Access to Information Technology

There is an opportunity for information and communication technologies to serve as a unifying agent in Canada. Yet for this potential to be realized universal access must become a reality. To date, however, global trends concerning participation in the knowledge-based society seem to be replicated in Canada. Research on Canadian participation in the information techno-structure finds evidence that is both encouraging and disturbing. Canada has an installed communications infrastructure that is world renowned, and the penetration of certain basic information tools such as micro-computers and modems into households and businesses has been rapid. In most cases, the Canadian penetration rates match or exceed those reported for the U.S. (see Annex A).

However, preliminary evidence also suggests that wide variability exists in the extent to which different social groups and strata participate.²⁷ Canada's "wired", are mostly young and male, quite affluent, highly educated, living in big cities, consumed with the work ethic and strong believers in the benefits of applied technology. Income levels are generally the key determining factor that shapes the access citizens have to the information techno-structure. This profile leaves out many Canadians. Access is much more limited for members of smaller communities and rural areas, and for certain groups such as francophones, women and minority communities.

Concern is mounting, therefore, about the need for universal access to new information technologies and the information networks which link them together, as the first vital step towards promoting social cohesion in the knowledge-based society. The information highway progress report released in May 1996 commits the Ministers of Industry and Canadian Heritage to develop a national access strategy involving policy, regulatory and other measures by 1997.

The concern to ensure that new technologies not widen the inequalities which exist within countries is shared in both the developed and developing world. Yet in developing countries they begin with deeper and more intractable structural factors. Narrowing the gaps will depend on active collaboration between industrialized and developing countries as well as among industrialized countries.

Challenge: To avoid further fragmentation both within and between countries by promoting social cohesion

Projecting Canada's Soft Power

The view that knowledge, information and ideas -- or "soft power" -- will confer increasing international influence in the wired world over the next decade stands to profoundly influence the status and role of middle powers such as Canada whose military and economic might are limited. As one of the most wired nations in the world, Canada is well-placed to wield soft power and to act as a knowledge broker. Yet to date Canada's performance has lagged behind other countries in using modern communications technologies as a vital part of the conduct of international relations.

Over the coming decade it will be important to bring a greater strategic dimension to the projection abroad of information about Canada and to bring the potential of information technologies to bear in the pursuit of Canada's foreign policy objectives. Possible initiatives could include linking Canada's SchoolNet to other countries through commercial agreements, establishing "single window" kiosks at foreign embassies and the use of information technology to enhance Canada's international education and technology objectives. These opportunities will be pursued through the further development and implementation of Canada's International Information Strategy.

Opportunity: To use information technologies to exert Canada's "soft power" influence in the world.

Governance in a Wired World

Governing in the knowledge-based society means first and foremost acknowledging the limits of governance. As a global phenomenon the knowledge-based society is beyond the reach of traditional national policy mechanisms. Clearly there will be a need to identify which aspects of the knowledge-based society require intervention and regulation and to work cooperatively with the international community to achieve workable approaches. Canada is already playing a leadership role within the G7, the OECD and other fora in advancing the establishment of a common international approach to the knowledge-based society. For example, at the Information Society Ministerial Conference in Brussels in February 1995 Canada played a key role in the development of a vision of the "global information society" to be guided by a set of eight principles:

- ☐ Promoting dynamic competition
- ☐ Encouraging private investment;
- ☐ Defining an adaptable regulatory framework;
- ☐ Providing open access to networks;

while

- ☐ Ensuring universal provision of and access to services;
- ☐ Promoting equality of opportunity to the citizen;
- ☐ Promoting diversity of content, including cultural and linguistic diversity;
- ☐ Recognizing the necessity of worldwide cooperation with particular attention to less developed countries.

This provides the framework around which domestic and transnational regulatory regimes and standards will need to be worked out. Key issues requiring international action will include copyright, ownership, privacy, regulation of offensive content, taxation (e.g. taxing the electronic marketplace) and competition among others.

Domestically, the knowledge-based society will also transform governance. In its response to the *Report of the Information Highway Advisory Council* the Government of Canada committed itself to being a "model user and a catalyst for Information Highway developments across Canada."²⁸ This will imply easy access to government services to electronic windows, and the conduct of business electronically with "digital cash". The Government will also be able to provide new opportunities to engage citizens in participatory democracy, be it through electronic townhalls or teledemocracy.

Challenge: Achieving transnational governance in the information society while enriching domestic governance

Security in a Knowledge-Based World

Military, law enforcement and national security activities are all becoming more complex in the knowledge-based society, requiring that these infrastructures keep pace. In the case of military technologies, Canada must maintain some consistency with the United States which is at the forefront of developments in military technologies. The risk, for example, in surveillance capability is that we will know less about events occurring on our own territory than the United States.

A second challenge will be the need to attract and retain highly skilled and educated personnel as new communications and weapons technology suffuse the military. A final challenge is posed by the long time frame between the development of military technology and its operational deployment, hence the importance of adopting a policy and research perspective well beyond 2005.

Similarly as national and global communications systems and the data carried by them increase in value Canada's national security and law enforcement infrastructure will need to be equipped to deal with criminal acts and activities posing threats to national security (e.g., disruption of global financial networks by viruses or hacking, satellite sabotage, etc.). A key issue will be to ensure that national and international communications infrastructures are managed in such a way that law enforcement and national security can maintain their investigative capacities and exercise their lawful mandates. These new information management challenges will increasingly require collaboration at the international level.

Challenge: To adapt to the changing dimensions of international conflict and national security

International Collaboration

Narrowing the gaps between and within countries in the knowledge-based society will depend on the active collaboration between industrialized and developing countries, as well as among industrialized ones. Since this forms one aspect of stability in a global sense it will need to figure prominently in Canada's foreign policy and development assistance considerations to the year 2005 and beyond.

The knowledge-based society reinforces the developmental importance of investing in people and raising the human capital of poor and marginalized. This is especially true for girls and women, those who are most marginalized. Indeed, by virtue of the positive spillover effects which derive from education, and the equity argument, there are strong reasons for investing in the development of girls and women as an approach to assisting developing countries enter the knowledge-based society.

As the most export dependent of the G7 economies, Canada's prosperity and security will depend more and more on the outside world, and hence the developing countries. The Canadian information and technology sector is well-positioned to be a major player in meeting the infrastructure and human resource development needs of developing countries as they enter the knowledge-based society. This capability is enriched by Canada's bilingual character and multicultural identity.

Challenge: To work with developing countries to hasten their integration into the knowledge-based society while avoiding further marginalization.

The State of Research

The Problem of Data

Several dimensions of technology and the knowledge-based society have been extensively researched over the last decade by economists, sociologists, management specialists, and communications theorists. Considerable qualitative analysis exists on the societal impact of the transition to a knowledge-based society as well as some quantitative analysis. Yet the capacity to develop a complete picture, both domestically and globally, is lacking, due primarily to serious inadequacies in available statistical data.

First, statistics on the economic impact are frequently sector specific or confined to particular aspects of the knowledge-based society such as infrastructure costs, contribution to GDP or R&D. Yet even this is incomplete. As Neice notes:

...traditional data on economic growth, drawing on the time-honoured practice of providing input to national accounts and indicators using industry sector trends, have become somewhat spongy and are no longer very adept at catching what is happening in the evolving information economy.²⁹

Second, there is insufficient data to understand the societal dimension of the transformations we are experiencing. For example, while considerable data exists on penetration rates of information technologies, there is little information on how they are being used, the characteristics of the user population, the linkages between technology and employment, effectiveness of learning technologies, and attitudes and values towards technology.

A third problem is that of the international comparability of existing data. Currently international comparisons are possible on only the most macro indicators of the knowledge-based society and then primarily its economic dimensions. Good data is practically non-existent for lesser-developed countries. Canada has been in the forefront of organizations such as the OECD in pushing for comparable statistical frameworks for measuring the knowledge-based society. Over the coming decade this work will need to continue as the need grows more acute to provide policy makers with sound international benchmarks against which to measure Canada's progress.

Specific Research Needs

Beyond the question of data, there are a number of specific areas where research will be required over the coming decade. These are set out in detail at the end of this paper.

Conclusion

To advance this research agenda further work will be required by Departments to identify linkages among these research gaps and to integrate the international dimension into domestic research contemplated or underway on the knowledge-based society. Moreover it will be necessary to continue to work closely with Statistics Canada and the international statistics community through the OECD and other international organizations to highlight the importance of internationally comparable data in this area and to encourage the development of common statistical frameworks.

Technology and the Knowledge-Based Society – Research Agenda

Enhancing Canada's comparative advantage

Requirements for new research can be grouped into two categories:

- ☐ Research to identify and enhance specific areas of comparative advantage for Canada, for example:
 - International market niches for natural resources science and technology and the costs and benefits of the transfer of natural resource technology to Canada's competitors.
 - Comparative analysis of environmental regulations and standards regimes in Canada and other countries, particularly as they pertain to the natural resources sector; analysis of the gaps in technology necessary to adequately address these.
 - Analysis of the extent to which trade and investment has shifted to knowledge-intensive industries in the wake of NAFTA.
 - Economic benefits of information technologies in the agricultural sector.
- ☐ Research to support the enhancement of Canada's competitiveness generally in a knowledge-based society, for example:
 - Linkages between Canada's competitiveness and use of advanced technologies and transportation infrastructure; and analysis of the type of physical transportation system that can best satisfy the requirements for increased accessibility in the knowledge-based society.
 - The dynamics of technologies in education, including performance indicators, success factors, and impact on specific populations (youth, seniors, persons with disabilities, Aboriginal communities); as well as their use in industry-based education and training.
 - The extent of out-migration and its social and economic implications.

Developing and marketing Canadian cultural products internationally

- ☐ International trade patterns and the competitiveness of Canada's cultural industries, particularly those using new technologies.
- ☐ Alternative policy models to encourage the creation and diffusion of domestic content and promote the diversity of content.
- ☐ Means to enable the digitization and diffusion of cultural and heritage resources.
- ☐ Technological and policy mechanisms to enforce copyright for the electronic dissemination of cultural products.
- ☐ Foreign and cross-media ownership.
- ☐ Impact of technology on patterns of distribution and consumption of cultural products.
- ☐ Linkages and possible synergies between culture, science and technology.

Avoiding fragmentation and promoting social cohesion

- ☐ Research on the level and types of participation in the information society, both in Canada and internationally.
- ☐ Best practices research on the means by which countries balance international competitiveness and domestic cohesion concerns.
- ☐ Research to guide the development of appropriate roles for the public and private sectors, in particular regarding the equity effects of new technologies.
- ☐ Implications of the knowledge-based society for the maintenance of national values and symbols, and for attachment to Canada and engagement in civic life.

Exerting Canada's "soft power" influence in the world

- ☐ Empirical analysis is required on the linkages between the exercise of "soft power" and the advancement of Canadian political, economic and societal interests in the international community.
- ☐ Research to support the strategic use of information and communications technologies in the exercise of "soft power."

Governance in the information society

- ☐ Research to help in define the optimal role of national, regional and supra-national institutions of government, as well as that of the private sector and civil society, in developing and regulating the knowledge-based society, particularly emerging areas such as electronic commerce on the Internet.
- ☐ Analysis of international best practices in government service delivery to citizens using information technologies.

Changing dimensions of international conflict and national security

- ☐ Research on actual and potential threats to national security posed by economic espionage, "cyberterrorism", and attacks on Canada's information infrastructure; research on technological and policy means to counter these threats.
- ☐ Analysis of developments in military technologies which Canada will need to 2005 and beyond to counter emerging military threats; identification of areas of military technology in which Canada may be able to establish a market niche.

Integrating developing countries into the knowledge-based society

- ☐ Information and analysis on the links (investment, technology transfer, labour) between North and South in information and communication technologies; analysis of the costs and benefits of alternative investment approaches by industrialized countries to help create an environment in developing countries conducive to their integration into the knowledge-based society.
- ☐ Research on the "transportability" of educational and cultural hardware and software.

Notes

- ¹ Elements of this paper are adapted, by permission of the author, from a larger paper by David Neice, *Information Technology and Citizen Participation*, Corporate Policy and Strategic Planning, Department of Canadian Heritage, August 1996.
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- ¹⁵ S. Graham and S. Marvin, *Telecommunications and the City: Electronic Spaces, Urban Places*, New York and London: Routledge Press, 1996, p. 60.
- ¹⁶ Arthur and Marie Louise Kroker, *Hacking the Future*, St. Martin's Press, 1996. Cited in European Union, op. cit. Neice refers to the distinction between *the information proximate*, who derive benefits from privileged access to information technology, and *the information periphery* who are excluded from such access. See Neice, op.cit
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- ¹⁸ Albert Breton, "The Economic Analysis of Language", Unpublished paper, November 1996.
- ¹⁹ "The property of the mind", *The Economist*, July 27, 1996, p. 57.

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- ²⁰ Presentation by Francis McDonough, U.S. Office of program Planning and Evaluation, at the Technology in Government Conference, September 18, 1996.
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- ²⁵ OECD, *Technology, Productivity and Job Creation*, 1996.
- ²⁶ Statistics Canada
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8. Human Security

The Issue

"In the final analysis, human security is a child who did not die, a disease that did not spread, a job that was not cut, an ethnic tension that did not explode in violence, a dissident who was not silenced. Human security is ... a concern with human life and dignity. The idea of human security, though simple, is likely to revolutionize society in the twenty-first century."

Human Development Report 1994

The focus of this paper is on global human insecurity and what this means for Canada over the next decade. It examines the forces involved and the potential impacts.

Forces Affecting Human Security

The forces that influence human security are interrelated and mutually reinforcing. Chief among them are population, poverty, inequity, food, and environment.

Population Growth and Demographics

Currently estimated at 5.8 billion people, the global population is predicted to grow to 6.6 billion by 2005. This growth is due mostly to declining mortality rates, since fertility rates are declining world wide though at different rates. Almost all of the growth is concentrated in the developing world, especially in the least developed areas.

Africa is experiencing the most rapid population growth with an annual rate of 2.8%, followed by Latin America and Asia. Asia accounts for 60% and Africa with approximately 15% has replaced Europe in second place. The continued pressure of population growth in the developing world will place the already fragile social, economic and political system of many countries under severe stresses.

In 1995, 45% of the world's population were urban dwellers. This is expected to pass the 50% mark by 2005. Developing countries are experiencing the most intense urbanization. In 1970 half of the world's city dwellers could be found in developing countries. By 1995 this had increased to two thirds.

Many urban centres have already reached critical levels of air and water pollution. Garbage disposal is a growing problem world-wide – for both developed and developing countries. Demand for food can lead to over-production and agricultural degradation, as well as chemical pollution due to increased use of fertilizers. Valuable farm land is consumed by urban sprawl.

Uncontrolled urban growth creates a highly volatile environment. In mega-cities like New Delhi, Jakarta, Mexico City and Rio de Janeiro, massive ghettos have mushroomed,

concentrating poverty, creating conditions for increased crime and the spread of disease and highlighting social, economic and political inequities.

Poverty and Economic Insecurity

In the year 2000, four-fifths of the people of the world will be living in the developing countries, most with improving conditions, but the number in absolute poverty and despair will still be growing.

Shaping the 21st Century: The Contribution of Development Cooperation

The World Bank recently estimated that 1.3 billion people live on less than \$1 (US) a day, while about 3.3 billion people – 60% of the global population – have incomes of barely more than \$2 (US) a day.

Poverty contributes to high population growth in developing countries. Poverty can increase pressures on the consumption of non-renewable resources. While people living in poverty may be aware of the need to preserve their environment, they face such livelihood pressures that they will engage in damaging practices.

Increasing numbers of people in both the developed and developing world are experiencing economic insecurity as a result of unemployment, underemployment and chronic unemployability. Youth, women and minorities appear to be suffering the most. Cuts to social programs in many nations are increasing pressure on families and communities.

"...the new motive must be war against global poverty, based on the recognition that this is an investment not only in the development of poor nations, but in the security of rich nations. The real threat in the next few decades is that global poverty will begin to travel without a passport, in many unpleasant forms: drugs, diseases, terrorism, migration...."

*Human Development Report, 1993 as quoted by CIDA in
"Global Migration – Considerations for the Year 2005"*

Inequities in Access

Not only is the number of poor increasing, but so is the gap between rich and poor. In 1991, 85% of the world's population received only 15% of its income. This is not a developing world phenomenon, as income in many developed nations is also becoming increasingly polarized.

Women are particularly vulnerable to inequality and human rights abuses. They form the majority of the world's poor and are often the very poorest. They are not treated equally under many legal systems. They are grossly under-represented in government and business around the world. They usually work longer for less money, do the majority of the world's unpaid work, lack equal access to education and are the primary victims of random and systemic violence. Yet, as recognized at the 1994 Cairo conference,

The empowerment of women and improvement of their status are important ends in themselves and are essential for the achievement of sustainable development.

International Conference on Population Development, ICPD ©94
Summary of the Programme of Action

Food Insecurity

At the World Food Summit in Rome in November 1996, nations recognized poverty as a major cause of food insecurity. Food security is defined as all people having physical and economic access, on a sustained basis, to enough food to live a productive and healthy life.

Today, over 800 million of the world's population suffer from food insecurity. "The vast majority of the hungry and malnourished suffer from inadequate income, not from inadequate food supplies."¹ There is growing concern in the international community, however, about the capacity of the agricultural sector to meet future global demand.

Demand for food in developing countries is expected to almost double over the next 30 years as a result of increased population and a rise in income levels. Meeting the world's growing nourishment needs without risking agricultural sustainability is tomorrow's challenge.

Pressures on the Environment

Industrialization and rapid population growth have placed great strains on Planet Earth. Water is becoming scarcer, forests are disappearing, air pollution has reached levels that are endangering plant, animal and human life and the ozone layer has developed cavities.

The world is still very dependent upon fossil fuels. Production of fossil fuels can lead to land destruction, their transportation can pollute our soils and oceans and their use emits carbon into the atmosphere causing climate change.

Carbon emissions continue to grow. The worst offenders are industrialized nations, with the US leading the way at 1.4 billion tons. However, developing countries are catching up, especially China, India and Brazil. In China, the number of cars rose from 150,000 in 1979 to 1.9 million in 1995.²

At the Rio de Janeiro Summit, Canada and other industrialized committed to reduce their carbon emissions to 1990 levels by the year 2000. Actions taken to date, however, will be insufficient to realize this goal. For less developed nations using old, highly polluting energy technologies, reducing emissions is still more difficult.

Key Impacts of Human Insecurity

When human security is under threat anywhere it can affect people everywhere.

Human Development Report 1994

Canada, as a member of the global community, has a moral responsibility to do its part in addressing the world's most serious problems, and Canadians have demonstrated that they are supportive. It is also in our own self interest to enhance worldwide human security, as failure to deal with world problems can place the health and safety of our citizens at risk and could lead to loss of economic opportunity.

Conflict within or between nations will increase the demand for international peacekeeping and humanitarian operations, in which Canada is often a major participant. Ethnic and religious differences are at the source of many problems afflicting the human condition in the developing world. Hostilities in Central Africa have led to massive flows of refugees. In Somalia, war exacerbated existing food shortages and culminated in the breakdown of civil society. Violent conflict is often accompanied by the collapse of authority and the rise of warlordism, which in turn breeds crime and disorder. Where chaos reigns, resource scarcity, environmental decay and disease usually follow. In sum, conflict directly threatens human security.

Involuntary migration, a direct result of human insecurity, increases the costs of controlling our borders, enforcing immigration legislation and processing asylum claims. The accompanying threat of disease also places pressure on our health system.

Trade between Canada and the developing world is on the rise and any instability in these countries could therefore negatively impact our economy.

Three areas where persistent and growing levels of human insecurity worldwide could have major implications for Canada over the next decade: health; international migration; and crime and terrorism.

Health

The world is witnessing the emergence and re-emergence of infectious diseases which in 1993 accounted for an estimated 16.4 million deaths, approximately one third of all deaths in the world.³ Familiar diseases such as plague, diphtheria and dengue, meningococcal meningitis, yellow fever, tuberculosis and cholera are re-emerging as health problems. This results from a combination of increased resistance of microorganisms to antibiotics, failing public health systems and new development projects where humans are exposed to new transmission conditions.

During the past two decades, over 30 new microorganisms linked to emerging communicable diseases have been identified, ranging from HIV and the hepatitis C virus to Ebola and rotavirus.

Over 90% of people infected with HIV/AIDS live in less developed countries. Since 1990, the total number of adult HIV infections has tripled, with 4.7 million people contracting the virus in 1995 alone.⁴ In some of the hardest hit areas, over 30 percent of the adult population will be affected.

Rising tobacco consumption is also a threat to a sustainable and equitable development. The World Bank has estimated that current global health care costs and the economic value of loss of productivity due to tobacco related disease is over \$208 billion annually. The World Health Organization predicts that tobacco consumption will be responsible for the death of 210 million people over the next 30 years. In addition, curing of tobacco consumes 7 million acres of forest annually and growing tobacco depletes soil nutrients faster than any other commercial crop.

Pressure Points

Increased immigration, migration, commerce and business travel, tourism, and trade increase opportunities for transmission of disease, challenging Canada's capacity to protect its population at home and abroad.

Disease surveillance in Canada can only be fully effective as part of an international network. Today, people and products arrive in Canada from around the world, well within the incubation period of most communicable diseases. The flow of people to Canada will not only require increased disease surveillance mechanisms, it will also result in increased pressures on our own health system, as Canada must attend to the health needs of the those who arrive at our borders seeking asylum.

International Migration

Migration is a problem only when flows are massive and largely or totally involuntary. The basic question is how to eliminate oppression, violence and economic or physical desperation that force people to move.

Report of Working Group #4

Global trends which threaten human security often force people to leave their countries of origin and seek a better life elsewhere. Rapid improvements to communications and transportation facilitate and encourage the flow of people worldwide. Most migration occurs within regions, between developing countries, often upsetting an already delicate social and political situation in the country of destination. The most recent example of this is the massive migration occurring in the Great Lakes region of Africa where local populations swelled by hundreds of thousands of people literally overnight.

Worldwide there are an estimated 27 million refugees and other displaced persons "of concern" to the United Nations on the move, an increase of 10 million since 1991.⁵ Approximately 75% of refugees are women and girls. This population movement has transformed international migration into a major social and political issue in most industrialized countries.

To date, techniques to manage the flow to the developed world have largely focussed on streamlining asylum systems, strengthening border control measures, and reducing potential pull factors such as social benefits, i.e., welfare, health care, education, etc. Regionalism has emerged in the 1990s as a powerful influence upon approaches to refugee protection in the developed world. For example, many European countries have adopted more restrictive entry policies.

As a "traditional" country of immigration, Canada has a strong interest in the effective management of migration flows. In 1995, Canada granted permanent residence to about 209,000 persons, including 182,000 immigrants and 27,000 refugees (of whom 13,500 were persons who had made asylum claims on our territory). Immigration levels will likely remain relatively constant over the coming years with a continuing emphasis on attracting the highly skilled. Federal costs for refugee resettlement and asylum are conservatively estimated at \$175 million for 1995-96, not including Quebec.

Free-trade treaties such as NAFTA permit the temporary entry of foreign nationals to Canada, often with beneficial consequences such as new investment and increased opportunities for Canadians. On the other hand, the increasing ease of mobility that comes with globalization and new trading arrangements may pose problems. For example, to facilitate freer trade with Chile, Canada removed its visa requirement for nationals of that country. The result was a dramatic rise in Chilean refugee claimants: over 4,000 from February 1995 to June 1996, concentrated in Montreal, the majority of whom were found not to be refugees. The visa was subsequently re-imposed.

Pressure Points

Because of its geographic location, it is unlikely that Canada will experience massive influxes of migrants. Tighter controls in Europe and a comparatively low refugee acceptance rate in the US (20%) could, however, redirect asylum seekers to where their likelihood of success is greatest – Canada. This will challenge our traditional mechanisms for dealing with the flow of refugee claimants. The impacts of even the relatively small number of migrants who find their way here can still be serious and expensive.

The influx of people with different cultures, traditions and values both enrich Canadian society and offer challenges to social cohesion. The impact is most pronounced in Canada's three largest urban centres (Toronto, Vancouver and Montreal), where over 60% of immigrants are destined. Rising human insecurity in Canada could make Canadians more prone to anti-immigrant sentiments and increase the threat to cohesion, especially if migration is seen to increase crime, terrorist activity and the risk of exposure to infectious disease. Canadians are willing to be generous to those who are in genuine need of our protection. However, evidence of queue-jumping or other abuses of our generosity, which are more likely to occur when migration pressures are high, also contribute to anti-immigrant attitudes.⁶

Crime and Terrorism

Human insecurity contributes to both increased criminal activity and increased victimization. Illicit trade in drugs, money and people is growing. Worldwide, there appears to be increased terrorist activity as new powers emerge and relationships between states change. For example, many countries with imperialist histories are finding themselves the target of terrorist activity. The deteriorating relationship between France and Algeria is a prime example.

Pressure Points

Criminals may be part of mass involuntary movements of people, and these movements may also cause people to turn to crime when they have no other means of support. However, persons with established criminal ties entering Canada usually come as legal immigrants and visitors. These criminals engage in a broad range of activities, including extortion, smuggling and money laundering. The growing sophistication of the activities in which these people are involved leaves Canada increasingly vulnerable.

Efforts to control the flow of people into countries will likely increase the incidence and sophistication of alien smuggling. In 1995, for example, the RCMP reported 683 cases involving organized alien smuggling, a 47% increase over the previous year.

Challenges and Opportunities

The next decade offers both challenges and opportunities for Canada. Only by meeting the challenges will we be able to take full advantage of the opportunities.

Challenge: Maintain a balance between domestic responsibilities, including fiscal restraint, and international responsibilities.

Demographic, social, economic and fiscal trends in Canada are placing increasing pressures on our health and social infrastructure. Consequently, there may well be a tendency on the part of Canadians to reduce their commitment to assisting the development of other countries. It will be important to convince them that failure to address global insecurity will impact upon their own and their children's future security.

Challenge: Coordinate Canada's Domestic and Foreign Policies

Traditional governance structures challenge our ability to create multidisciplinary solutions to complex, multi-dimensional issues. Specialists must collaborate in developing a horizontal perspective on the issue of human security, bringing their own expertise to bear on the interconnections among possible interventions.

For example, Canada has the experience and the infrastructure to manage orderly, modest flows of immigration but there is high potential for increased involuntary and illegal migration from developing countries over the next decade. An effective policy approach requires coordination among the following: development aid, assistance with democratization and governance, peacekeeping and refugee resettlement, environmental and energy research and knowledge transfer, agriculture, refugee protection, border security, health, transnational crime, trade and immigration. This horizontal approach must also feed into foreign policy and international cooperative efforts to ensure that diminishing resources are focused on the most effective responses.

Challenge: Balance Productivity with Economic and Human Sustainability

Balancing the need to meet consumer demands with the need to preserve the environment for future generations is critical. Consumer demand grows as economies develop and income rises. This, combined with population growth, will create pressure for higher short-term production. Environmental degradation is a potential consequence as

the cheapest, rather than the most sustainable, energy sources, raw materials, industrial processes and transportation options are used. The challenge is to find a process of development that is sustainable over the long term.

Challenge: Keep Canadians Informed

Canadians have the right to accurate, up-to-date information about the factors that affect their lives. However, it is also important to allay fears to ensure that they do not escalate into hysteria, the risk of which is shown by recent experiences with the Ebola virus and mad cow disease.

The cost to manage the perception of threats to public health cannot be ignored. Consider the \$500,000 that was spent by the federal government as a result of the Ebola virus scare in 1995.

Opportunity: Benefit from Voluntary Migration Flows

Global migration offers substantial economic opportunities for Canada. Highly qualified immigrants make direct contributions to the Canadian labour market. They also establish stronger trade and investment links to their countries of origin (particularly Asia). The challenges are twofold. The first is to manage migratory flows so as to satisfy our domestic requirements for skilled labour without acting as a "brain drain". The second is to support our domestic and foreign trade expansion objectives without eroding the effectiveness of our international humanitarian and economic development initiatives.

The foreign student movement also serves the objective of knowledge and skills transfer by providing post-secondary training and education to students from less developed and other countries. It both enriches the Canadian university experience for Canadian students and serves as a mechanism for development. That said, if foreign students choose to remain in Canada following completion of their education, their countries of origin do not reap the benefit.

Opportunity: Take Advantage of Globalization

By 1995, private capital flows to developing countries were three times the level of official development assistance. Multinationals operating abroad will, over the next decade, provide new avenues for education, knowledge transfer and economic growth to the developing world. They can build up the local skills pool through on-the-job training of foreign nationals and play a leadership role in the enhancement of local skills by bringing foreign nationals to Canada for familiarization and training purposes. We can enlist the support of Canadian multinationals and tailor our aid, trade, development and immigration policies to assist countries in the expansion of local economic opportunities. It is also in Canada's economic interests to tap into the international pool of skilled labour.

Opportunity: Canada as a Broker and International Leader

Canada has both the capacity and the credibility to play a leadership role over the next decade in supporting economic development and democratization, keys to the enhancement of human security. But Canada is not immune to human insecurity among its own population. Our ability to influence and display leadership will diminish if human insecurity is allowed to flourish.

Canada touches the Americas, Europe, Pacific Rim and Arctic, giving it the opportunity to participate in multilateral approaches to regional and global issues. In addition, our immigrant population and historic ties through the Commonwealth and la Francophonie give us links to a large number of countries, without the negative connotations of an imperialist past. Canada is respected internationally for its commitment to human rights and its active presence in international forums. We can offer technical expertise and experience in such fields as peacekeeping, humanitarian assistance, agricultural

production, health care, environment, immigration and protection, and governance and human rights.

- ❑ **Humanitarian Assistance and Infrastructure Development:** Canada is active in both crisis and long term humanitarian operations and works closely with international agencies and other countries in these efforts. Assistance to support infrastructure development and improvements in areas such as education, health, the environment, etc. are among the strategies to meet longer term needs of less developed nations.
- ❑ **Agricultural Production:** Commercial joint ventures and sales of technology and skills could be another avenue to introduce Canadian expertise into the developing world. Canada has used NAFTA and the Canada-Chile free trade agreements to extend our agricultural markets and to collaborate in north-south ventures.
- ❑ **Health:** Canada is a key player in international health forums such as the World Health Organization and the Pan-American Health Organization. This provides us with an opportunity to influence the global health agenda as well as health practices and program in other countries. In addition, Canadian consultants are working on health system reforms with Latin America and Eastern European countries. This is both improving health care for these populations and generating contracts and exports for Canada's health care expertise in service and products. Canada is internationally recognized for its state of the art research facilities and is currently linking up with other international research facilities to improve international and domestic surveillance of new and emerging diseases.

Canada is also providing leadership in the development of an international framework convention on tobacco control. Canada has an opportunity to continue to show international leadership in drafting this framework to address common concerns such as tobacco taxation, smuggling, and the advertising and marketing of tobacco products.

- ❑ **Migration and Immigration:** Canada's technical expertise and experience with an active immigration policy places us in a position to play a significant role in leading international cooperation on migration. Canada has also demonstrated leadership in the area of asylum and refugee protection. For example, our 1993 guidelines on refugee protection for women fearing gender persecution have influenced the Swedish government in recent changes to their protection policies. Canada's pluralist society and integration of newcomers have attracted world attention as countries with similar challenges search for ways to manage the impact of immigration on their societies.
- ❑ **Governance and Human Rights:** Canada contributes expertise to the process of democratization and evolution of governance in South Africa, former East Bloc countries and developing countries. Canada's balanced approach and clear commitment to human rights and gender equality serve as a model. Through aid and trade agreements and international forums, Canada can transfer these values and a sense of their benefits to developing countries.

The State of Knowledge

The economic and social forces that lead to human insecurity and trends such as globalization and regional integration are inextricably linked. Similarly, better integration of policies and programs across borders and across disciplines is necessary if we are to successfully combat the world's most serious human security problems. How these forces play out in societies with differing characteristics, how they interact and what is the best solution, combination or sequence of interventions appears to be less well understood.

To enhance human security both at home and abroad, we need to learn more about the forces underlying insecurity, their potential for impact on Canada and Canadians, and what we might do to prepare for the future.

Managing the forces that affect global human security

Aid, trade and development strategies are the key policy levers available to address global human security issues. These strategies seek to reduce population growth, to promote political and economic stability, and to reduce the incentives for involuntary migration. A better understanding of the forces that affect global human security is a prerequisite to the effective design and use of these policy levers.

Population Growth and Demographic Trends

While the world's population continues to grow, the rate of growth seems to be levelling out. Increased death rates related to economic and social instability and to diseases such as HIV/AIDS have contributed to this phenomenon. On the more positive side, India's annual growth rate fell from nearly 17 million in 1993 to 15.6 million in 1995 without an increase in mortality. More needs to be known about the causes and effects of this phenomenon if these positive trends are to continue.

Questions: What are the specific implications of world population growth for Canada? What are the resulting direct and indirect costs of dealing with these implications? What are the most effective and cost efficient intervention strategies to address population growth and its impacts, and what role should Canada play internationally to promote these activities?

Poverty and Economic Security

Global poverty and economic security influences and is influenced by population growth and distribution, gender inequities, education, food insecurity, and environmental factors. While these linkages are known, their interaction and the appropriate responses are less well understood.

Questions: What combination or sequence of interventions is most effective in addressing global poverty and enhancing economic security? Which influences are key to breaking the chain of poverty and economic insecurity? What are the appropriate education strategies to prepare people in the developed and the developing world for the labour market of the future? How can Canada help to address the twin problems of poverty and food insecurity in a way that is environmentally sustainable?

Inequities in Access

It is commonly accepted that a more equitable society experiences greater growth and prosperity and is more successful in reducing levels of poverty. Women are disproportionately disadvantaged in most societies, yet they have been proven to be the most effective purveyors of societal change.

Canada has invested heavily in human rights both at home and internationally. Equity and respect for human rights in societies is linked to the level of human security. A clearer understanding of the dimensions of these linkages and their interaction will fortify efforts to improve human rights around the world.

Questions: What are the most effective ways for Canada to encourage equity in societies? What strategies have resulted in lasting change in the situation of women? Are those strategies transferable among societies and domains? How do unequal distributions

of wealth, resources and people interact, what are the consequences, and for whom? What are the interactions between economic, social and political development and human rights? What are the impacts of international human rights developments on Canada's domestic policy-making?

Food Security

Achieving freedom from hunger while ensuring agricultural and environmental sustainability will require a better understanding of the forces that create food insecurity and the options for addressing these issues. Canada has a strong agriculture and food sector which can both contribute to global food security and create trade and commercial opportunities.

Questions: What are the long-term implications of increased economic prosperity, increased urbanization and changing eating habits on food demand and production? What are the likely impacts on world prices and Canadian agriculture and food trade of the changing geo-political environment? What are the incentives for stronger commercial linkages between Canadian agri-food businesses and developing countries? What are the opportunities and consequences for the Canadian agriculture and food sector of further economic integration with the US?

The environment

All indications point to the declining health of the planet. This has serious, long term consequences for our ability to enhance human security and deal effectively with related problems.

Questions: What are the linkages between urbanization, poverty, energy consumption, economic development and the environment? What are the linkages between environmental degradation and migration? What factors contribute to increased consumption of fossil fuels and what strategies, if any, have proven successful in encouraging efficient energy consumption?

Aid, Trade and Development

Knowledge and understanding of the forces that affect human security will form the foundation for examining the role of aid, trade and development. More information about both old and emerging players on the international scene is also required. For example, multinational enterprises are playing an increasing role in the developing world and could provide another avenue for change.

Questions: Are there economies of scale to be gained by adopting a more structural approach to development assistance, not only on Canada's part but on the part of the entire donor community? What are the long-term costs/benefits of trade liberalization? In terms of aid and development, what is the impact of decentralization within nation states and the emergence of new regional authorities on budgets, accountability, performance and participation? What should the balance be among development strategies to address education, technology and governance? What kind of development activities are multinational enterprises engaged in and what are the impacts? How can governments and the private sector better coordinate efforts taking into consideration their usually different motivations?

Managing Impacts of Global Human Insecurity on Canada

Managing the impacts of global human insecurity on Canada requires a two pronged approach to research. The first addresses the root causes of global human insecurity to

diminish the repercussions for Canada. The second prepares us for the possibility that these efforts may not be entirely successful.

Health

Improving health world-wide and protecting Canadians at home and abroad from disease are complementary objectives. Canada's health system is part of a broader international effort. Increased knowledge and understanding of the forces that affect health and facilitate the transmission of disease are required to sustain this effort.

Questions: How are infectious diseases transmitted internationally, and how vulnerable is the Canadian population? How can existing control and surveillance systems be strengthened to deal with current and future threats? How can international information collection and dissemination regarding infectious diseases be enhanced to achieve reliable projections, estimations and forecasts needed to ensure rapid and effective action? How well is Canada prepared to deal nationally and internationally with the various potential scenarios involving the emergence or re-emergence of infectious diseases?

What are the costs of tobacco consumption in both developed and developing countries? What are the implications of reduced tobacco consumption on producing countries such as Canada? What options exist to encourage agricultural diversification and other economic alternatives to tobacco production?

International migration

Canada, through the OECD Working Party on Migration, is promoting the Metropolis Project, a research agenda which addresses the economic impacts of global migration on Canada and other industrialized countries.

"The common aim, in dealing with international migration ... must be that of enhancing human security."⁸ To do this effectively, a better understanding of both the problems and solutions, their causes and effects, is required.

Questions: What are the most effective levers in preventing mass migration and encouraging orderly migration? What are the links between migration and trade and migration and aid/development? What is the impact on the countries of origin of an immigration program such as Canada's which is based on attracting greater numbers of highly skilled workers? What is the risk that Canada will face unmanageable influxes of involuntary migrants? How do we prepare as a nation and as part of the global community for such a scenario?

Crime and terrorism

Control and enforcement are important aspects of protecting Canadian society from crime and threats of terrorism. It is also important to understand the motivational forces that compel people to seek illegal means for migration.

Questions: What motivates illegal and involuntary migration to Canada? Who are the clients of alien smugglers? What strategies have been successful in limiting access to national territories by criminals and terrorists, and can these be applied in Canada? What political, economic and social factors create the right climate that encourages crime networks to establish or re-establish in new locations?

How to Prepare for the Future

Being prepared for the future means developing action plans that not only anticipate and manage crisis, but also allow us to stay focused on the long term. To be prepared we need to know and understand the changing combinations of forces that can impact on Canada and be able recognize the risks and opportunities. Our range of responses must be as broad as the range of situations with which we may be confronted.

In her book *The Coming Plague*, Laurie Garrett describes a scenario that was presented in 1989 to some 800 tropical disease experts:

An ethnic conflict in fictional "Changa" devolves into the slaughter of 125,000 civilians, with destruction of the national infrastructure and leads to the flight of a quarter million refugees into neighbouring countries. In the squalid conditions of a large refugee camp just outside the Changan border, malaria, malnutrition and tuberculosis are rampant. An international relief effort is launched with medical personnel from all over the world treating the refugees. Peacekeepers from six countries are protecting the refugees from possible Changan attacks.

The scenario proceeds with an epidemic of a lethal Ebola-type virus among the refugees, multinational relief workers and peacekeepers. Before it is noticed, infected individuals travel to North America, Asia, Europe and Africa, spreading the virus worldwide.

The hope was that the scenario would help identify and correct weaknesses in the public health emergency system. The reality uncovered by the exercise was that the infrastructure to identify, trace and isolate potential carriers did not exist, nor did the expertise in tropical medicine to manage such a crisis. Since this scenario was played, both domestic and international capacity has further eroded.

Conclusions

Today's problems respect no borders and transcend most disciplines. We still do not have a full understanding of how global forces interact, nor of how efforts to address them might impact upon one another.

This suggests that priorities for research include:

- ☐ An inventory and analysis of domestic and international research across all disciplines related to human security issues.
- ☐ Identification and analysis of multidisciplinary approaches used both successfully and unsuccessfully to address problems of human security.
- ☐ Creation of scenarios and research agendas to support the development of action plans for dealing with human security issues and events.

Human Security – Research Agenda

Managing the Forces that Affect Global Human Security

Population Growth and Demographic Trends

- ☐ Implications of world population growth for Canada and how to deal with them
- ☐ Strategies to address population growth and its impacts

Poverty and Economic Security

- ☐ Interventions to address global poverty and enhance economic security
- ☐ Education strategies to prepare people for the labour market of the future

Inequities in Access

- ☐ Strategies to encourage equity especially in the situation of women
- ☐ Interactions between economic, social and political development and human rights
- ☐ Impacts of international human rights developments on Canada's domestic policy-making

Food Security

- ☐ Long-term implications of increased economic prosperity, increased urbanization and changing eating habits on food demand and production
- ☐ Likely impacts on world prices and Canadian agriculture and food trade of the changing geo-political environment

The Environment

- ☐ Linkages between urbanization, poverty, energy consumption, economic development and the environment
- ☐ Linkages between environmental degradation and migration
- ☐ Factors contributing to increased consumption of fossil fuels and strategies to encourage efficient energy consumption?

Aid, Trade and Development

- ☐ Benefits of a more structural approach to development assistance
- ☐ Long-term costs/benefits of trade liberalization
- ☐ Development strategies to address education, technology and governance

- ☐ Involving the private sector, especially multinational enterprises

Managing Impacts of Global Human Insecurity on Canada

Health

- ☐ International transmission of infectious diseases and vulnerabilities of the Canadian population
- ☐ Strengthening control and surveillance systems , as well as information collection and dissemination
- ☐ Costs of tobacco consumption in both developed and developing countries
- ☐ Economic alternatives to tobacco production

International Migration

- ☐ Preventing mass migration and encouraging orderly migration
- ☐ Risk that Canada will face unmanageable influxes of involuntary migration
- ☐ How to prepare for such a scenario

Crime and Terrorism

- ☐ Illegal and involuntary migration to Canada, including clients of alien smugglers
- ☐ Strategies to limit access to national territories by criminals and terrorists
- ☐ Political, economic and social factors that encourage growth of crime networks

How to Prepare for the Future

- ☐ Developing action plans to anticipate and manage crisis
- ☐ Forces that can impact on Canada and their risks and opportunities.

Overall

Priorities for research should include:

- ☐ An inventory and analysis of domestic and international research across all disciplines related to human security issues.
- ☐ Identification and analysis of multidisciplinary approaches used both successfully and unsuccessfully to address problems of human security.
- ☐ Creation of scenarios and research agendas to support the development of action plans for dealing with human security issues and events.

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Notes

¹ Attaining Global Food Security by 2025

² Vital Signs, 1996

³ Vital Signs, 1996

⁴ Vital Signs, 1996

⁵ State of the World's Refugees. The Challenge of Protection

⁶ A more detailed discussion of the impact of immigration and migration on social cohesion can be found in the draft interim report of the Policy Research Committee, "Growth, Human Development and Social Cohesion".

⁷ Vital Signs, 1996

⁸ Report of Working Group #4

9. National Security and Public Safety

The Issue

Protection of the national security interests of Canada and the public safety of Canadians is among the most basic responsibilities of the federal government. In the period from now until the year 2005, however, the international security environment in which this responsibility must be met is likely to be anything but stable.

Thus far, the 1990s have been a time of security contradictions. Although the threat of a great power confrontation has abated, optimistic expectations of a new world order have not been realized. Nuclear war has been avoided, but the potential for proliferation of weapons of mass destruction is a growing threat. Major armed conflicts around the world declined from 36 in 1994 to 30 in 1995; but the reality is that there are over eighty known territorial disputes extant, and at least that number of potential ethnic conflicts. Moreover, the conflicts of the last five years have seen some of the worst atrocities since the Second World War. They are also responsible for many of the 23 million people registered with the UN High Commissioner for Refugees, out of the much larger numbers dislocated from their countries of origin.

Meanwhile, criminal organizations increasingly operate across national boundaries, threatening the very integrity of some nations and the safety of the public around the world. Terrorism has struck in nearly all countries, even those, like Canada and the U.S., long thought relatively immune. And spies may have come in from the Cold War, but they are still very active, now often seeking economic rather than military intelligence.

For Canada, this situation presents major challenges to both foreign and domestic policy. As an active member of the United Nations and a major destination for refugees, Canada's foreign policy is affected by many of the international events that create threats to world security and safety. At the same time, these events have direct domestic ramifications, from immigration and refugee policies, to enforcement efforts against terrorism and espionage.

Threats to Canada's national security and public safety fall under four main headings:

- ☐ weapons proliferation;
 - ☐ international and domestic terrorism;
 - ☐ espionage, plus threats to economic and information security;
 - ☐ transnational organized crime
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Trends and Developments

Weapons Proliferation

The possible proliferation of weapons of mass destruction (nuclear, biological and chemical weapons and their delivery systems) is a matter of the gravest concern.

The highest profile attaches to the efforts of smaller nations to join the nuclear club. In addition to the five declared nuclear weapons states (United States, United Kingdom, France, Russia and China), a number of other countries are assumed either to possess nuclear weapons or be intent on acquiring them.

According to the Congressional Office of Technology Assessment, a total of 11 countries are "generally reported as having undeclared offensive chemical warfare capabilities," and at least eight are reported to have undeclared offensive biological weapons programs.

As for delivery systems for these weapons, in addition to the five declared nuclear powers, more than a dozen countries possess or are developing ballistic missiles with ranges of 300 to 600 or more kilometres. Even by 2005, however, it is unlikely that any other countries will have developed delivery systems capable of reaching North America.

In Canada there have been covert attempts by countries of proliferation concern to acquire technology applicable to the development and production of weapons of mass destruction. For example, in a well-publicized case immediately preceding the Gulf War, American and British officials foiled an attempt by an Iraqi front company to acquire trigger mechanisms for nuclear devices. A Canadian firm had also been approached by an Iraq-based company with an order for trigger modules.

Canada is a party to a number of international agreements forbidding the transfer of weapons of mass destruction, or controlling the transfer of technology and materials to countries of proliferation concern, through the strengthening of national export control measures. However, non-signatory states and those ignoring their treaty commitments continue to undermine proliferation control efforts.

The proliferation of weapons of mass destruction, and the diversion to military programs of dual-use technology acquired under the guise of civilian research or application, constitute growing international security threats to which the government devotes particular attention. Several federal government departments and agencies co-operate against proliferation, including CSIS, Foreign Affairs and International Trade, National Defence, Revenue Canada, the National Research Council and the Atomic Energy Control Board. These participants play an intelligence or enforcement role or provide the technical knowledge to assess the proliferation threat.

Through investigations in Canada and abroad, the government seeks to identify illegitimate attempts to acquire Canadian technology and expertise, whether these are linked to foreign governments, international criminals, or terrorist organizations. The resulting analyses are shared with relevant government departments and agencies.

Challenge: The need for Canada to contribute to international efforts to help destroy nuclear weapons and plutonium in the former Soviet Union

International and Domestic Terrorism

International terrorism threatens public safety and challenges the civil authorities and democratic structures of developed states. In Western Europe, the governments of France, Germany and the UK have had particular difficulties with terrorism. In Israel, suicide bombings by Palestinian extremists persuaded the electorate to replace the

government responsible for the peace process with one that would adopt a harder line. As other developed countries tighten their responses to terrorism, Canada will become more attractive as a safe haven and a means of access to the USA. Recently, Canada has been spared the attacks experienced by other democracies, but the Air India disaster is a reminder that we have no guarantee of immunity.

For the period under review, trends in international terrorism will likely mix the old and the new, and include the following:

- ☐ continued sponsorship of terrorist organizations by a few states;
- ☐ nationalism and separatism as primary motivators for terrorism; intractable conflicts in the Punjab, Northern Ireland and the Middle East;
- ☐ rise of Islamic and other forms of religious extremism, rejection of what is perceived to be Western cultural imperialism
- ☐ right-wing extremism growing in developed countries while left-wing extremism declines, except in opposition to the right;
- ☐ the use of terror by alienated groups, less understood and less predictable than political terrorism;
- ☐ hostage-taking to extort money from governments and multi-nationals;

There is no reason to expect such activities to decline in the years to 2005. Terrorists will learn from their experiences and those of other groups, aided by instantaneous reporting by the worldwide news media.

The extreme right in America will likely be a continuing source of terrorism, and as such will be of special concern to Canada. Comprising a number of racist factions without a central leadership, individual members and small cells of the extreme right take their own decisions on action. Tensions between racists and their adversaries have the potential for violence on both sides. During the past year, two pipe bombs were mailed to white supremacists by a previously unknown group calling itself the Militant Direct Action Task Force.

Canada is an integral part of the response to terrorism by the G7/P8 countries. The matter was discussed at the Halifax Economic Summit in June 1995; this led later in the year to the Ottawa Declaration on measures to combat terrorism. The federal government also has developed a legal framework to minimize the threat to the domestic security of Canada and to respond to the international threat of terrorism. Helping the courts separate terrorists from refugees and asylum seekers engaged in legitimate dissent is one problem the G7/P8 countries share. Accordingly, the British government, supported by Canada, will place a resolution before the UN General Assembly, proposing stronger use of the exclusions contained in the Geneva Convention on the Status of Refugees.

Challenge: the rise of right-wing terrorism in the USA, with Canada as a safe haven

Opportunity: to sustain the intergovernmental momentum against terrorism generated by the Ottawa Declaration and subsequent conferences;

Opportunity: to develop further the cooperation between Canadian government departments whose responsibilities are affected by international terrorism

Espionage, Economic Security and Information Warfare

This broad category of threat is concerned with efforts by states, organizations or individuals to obtain information they can utilize to their advantage. It also includes efforts

to disseminate misinformation and to destroy information and information systems. Where once the target was predominantly military or political, today it is increasingly economic.

Espionage

The abrupt end to the Cold War raised hopes that the intelligence threat was over. Accordingly, the intelligence services in most Western democracies began downsizing and reorganizing in the early 90s. At approximately the same time, however, several foreign intelligence services were being tasked by their governments to undertake non-traditional activities, such as economic intelligence gathering.

After a period of hesitation, the Russian intelligence services (RIS), for example, were reinvigorated by the passage of a new bill on foreign intelligence collection, signed into law by President Yeltsin in July 1992. Other countries have enlisted their intelligence services for similar purposes, and the long-term effects of this trend are not yet clear.

Espionage, therefore, has not gone away; it has entered a period of change in which traditional and non-traditional forms of espionage co-exist. Canada now is cooperating in some areas with former intelligence foes, but traditional espionage continues, though at a less intense level. The June 1996 expulsion from Canada of two Russian illegals who had assumed the identities of deceased Canadians is a case in point.

Several countries attempt to steal high technology from Canada because they lack research and development, or because stealing is cheaper than buying the technology. Some countries expect an intelligence return from scientists and university students sent to the West at government expense. The PRC, for example, developed its weapons of mass destruction with the help of scientists trained in the former Soviet Union and in the West, and it remains a major exponent of this type of intelligence collection. Other countries attempt covertly to monitor, influence or coerce emigre communities. Such foreign intelligence activities violate Canadian sovereignty and are inimical to our national security interests.

Canada will continue to develop liaison arrangements with agencies in other countries, including the intelligence services of the former Warsaw Pact. While these relationships have the potential to provide Canada with important security information, another purpose is to convince former adversaries that their legitimate security needs can be satisfied through liaison and cooperation, without the need to spy on Canada or Canadians.

In addition to these new relationships, Canada has long-term liaison agreements with a number of allied intelligence services. Such agreements, which have proven to be immensely beneficial in the past, remain essential to the Canadian security intelligence mandate.

Economic Security

Economic espionage may be defined as illegal, clandestine or coercive activity by a foreign government to gain unauthorized access to proprietary information or intelligence for economic advantage. Accelerating economic interdependence and international competition are major sources of tension and conflict among world powers. Developed countries eager to maintain their standards of living, and developing countries equally determined to improve their standards, are under pressure to use whatever means they have to enhance their productivity and economic security.

A number of Canadian companies have been targeted by foreign governments to obtain economic or commercial advantage. The damage to Canadian interests takes the form of lost contracts, jobs and markets, and a diminished competitive advantage. Information

and technology that have been the target of economic espionage include trade and pricing information, investment strategies, contract details, supplier lists, planning documents, research and development data, technical drawings and computer databases.

The Canadian government has identified economic security as one of its priorities, and has modified its national requirements for security intelligence to meet this threat. The economic security mandate is to investigate clandestine activities by or on behalf of foreign governments that are detrimental to Canadian economic and commercial interests. The intention is to forewarn government when the otherwise level playing field of free market competition is deliberately tilted against Canadian interests. The government does not investigate commercial industrial espionage, or the practice of one private-sector company spying on another, but if these activities are of a criminal nature, they may be investigated by law enforcement agencies.

A National Liaison and Awareness Program to deal with economic espionage and proliferation issues was started in January 1992. The program seeks to develop an ongoing dialogue with public and private organizations. It promotes the collection and assessment of information that will assist in the investigation of economic espionage activities against Canada, and in the subsequent provision of advice to government. The program now has more than 1,600 contacts within Canadian industry and government, 30% of whom have expressed security concerns, 76 per cent of which related to economic security.

Our exports are increasingly dependent on technologies in which we are world leaders. The protection of this technology is essential to the economic well-being of Canada.

Information Technology

Information technology is an essential tool of government and business throughout the developed world. It is not only a means by which Canada stays at the forefront of new technology, but it is also an important employment creator and export earner. As an attractive commodity for other countries, organizations and individuals, however, information technology presents a security challenge.

A number of states, individuals and groups possess the tools to compromise computer systems and the information they hold. Any action taken to degrade Canada's information technologies and computer networks could threaten national security, and our social, political and economic interests. The potential for physical conflict to be replaced by attacks on information infrastructures has caused states to define a new threat: "information warfare."

Traditionally, the term was used by armed forces to describe protecting their own information while degrading that of their enemy. Recently, the widespread dependence by the armed forces, government and the private sector on computers and public communication links has resulted in a broadened definition of information warfare: *the need for a state to maintain national security by protecting its information infrastructure, while possibly exploiting that of an adversary.*

The adoption of new information technologies, and the use of new communication media like the Internet, creates vulnerabilities that can be exploited by individuals, organizations and states. The more sophisticated the state, more dependent it is on computer-based information technologies, and the more vulnerable it is to attack using information warfare tools, such as viruses, malicious code and hacking/cracking software.

Challenge: New forms of espionage and information warfare threaten not our military security but our economic success. We need new counterespionage and information protection techniques.

Transnational Organized Crime

The final communiqué of the 1995 G-7 summit in Halifax stated that transnational organized crime (TOC) represented a growing threat to the security of nations. This phenomenon involves the illegal traffic of drugs, people and money across international borders. While illegal money potentially has the most serious consequence for the world's economies, it is through the insidious and pervasive worldwide drug trade that international criminal organizations first acquire capital. Canada, with its open society, contiguous border with the USA and extensive business contacts in the former Soviet Union, has particular cause for concern.

Transnational crime and related activities pose a major threat to national security and public safety because they:

- ☐ undermine civil society and the sovereignty of states by normalizing violence and introducing a corruptive cancer into political structures;
- ☐ distort market mechanisms by depriving consumers and producers of the benefits of fair, free, safe and secure economic and commercial systems.
- ☐ weaken the nation-state by habituating individuals to operating outside the law and the lawful economy, and to evading taxation;
- ☐ degrade the environment through evasion of safeguards and regulations;
- ☐ destabilize strategically important nations, and hinder the progress of economies in transition and developing economies;
- ☐ interfere with foreign policy goals and the international system; and
- ☐ burden societies with the social and economic costs of illegal drugs.

The scale of the threat posed by transnational crime as recognized by the G-7 is sobering. Its ramifications extend beyond the violence-prone drug trade and its attendant social costs. Economic and commercial crimes, including major fraud against governments, continue to grow as a percentage of revenue for those involved in transnational crime.

Conclusion

The security environment has undergone a more rapid change in the 1990s than during any other decade since the Second World War. This process continues and three important characteristics are evident:

- ☐ the security intelligence environment will likely be more unstable, diverse and unpredictable than that experienced during the Cold War.
- ☐ many of the traditional threat activities remain, albeit in a changed, or changing form.
- ☐ new threats are emerging, particularly for developed democracies.

Pressure Point: The period to 2005 will likely pose a wide range of potentially very serious security and public safety threats to Canada and Canadians, the nature of which cannot be predicted with any certainty.

National Security And Public Safety – Research Agenda

Research into threats to national security and public safety involves, first, understanding the causes and extent of instability within and outside Canada, and, second, understanding the nature of the threats themselves and how they can be countered. Thus with respect to the threats identified in this paper, the following are some basic areas for research

1. Causes or symptoms of instability
 - existing and suspended hot wars, both between and within states
 - potential ethnic and religious conflicts
 - territorial and border disputes
 - failed and failing states; concentrations of refugees
 - migrations of people dislocated from their places of origin
 - cases of torture and other violations of human right
 - inequities in global income and national product
 - changes in class mobility within developed economies
 - exportable health problems and communicable diseases
 - food and water availability
 - depleted and depleting environments
 - production and availability of vital commodities, and
 - indices of democracy and the rule of law.
2. Indications of threatening situations or activities
 - exports and imports of weapons of mass destruction
 - problems in control of nuclear weapons and fissionable material
 - terrorist activities around the world, and any links to Canada
 - the changing nature of espionage activities
 - vulnerabilities of information systems
 - international criminal activities, especially with Canadian links

10. Political and Military Security

The Issue

This paper explores international trends and developments related to the political and military security issues likely to affect Canada in the years to 2005. It examines the root causes of potential conflicts and other factors that could affect the development of such conflicts, as well as the implications for Canada's domestic policy-making.

The paper also discusses the opportunities and challenges for Canada in relation to political and military security, and identifies the areas in which further policy and research work will be needed.

International Trends and Developments

The Root Causes of Conflict

The Role of the Great Powers

Although regional problems are expected to be the primary cause of international conflicts over the next decade, by 2005 great power rivalry could well have reemerged as a major factor in international politics. Indeed, geopolitical manoeuvring is already evident today in the evolving relationships among the United States, Russia and China.

United States

The most important influence on international stability is expected to remain the continued engagement of the United States – the world's only superpower and thus the only state capable of taking autonomous action across the full spectrum of issues. No one state approaches America in military, economic, technological or innovative power. No "peer competitor" is likely to emerge during this period to challenge U.S. pre-eminence. That said, isolationist tendencies, budgetary pressures and a desire to avoid military casualties where no vital interests are deemed at stake could lead the United States to impose constraints on its own actions. Any unwillingness on the part of the U.S. to assume the burden of global leadership may in turn lead to increased regional instability.

Within the North Atlantic region, NATO will likely persist, but the trend could be towards an alliance dominated by a few powerful states. Moreover, the longer term seems to point to a European security framework with loosening transatlantic links. The result may be a Europe dominated by German economic and political power, and underpinned by the combined conventional capability of the UK, France and Germany, and by the nuclear power of Britain and France. The U.S. will remain engaged in European security affairs as the pre-eminent power in NATO, but will likely cede leadership to its European allies on issues that do not affect its vital interests.

In Asia, the U.S. will likely remain the final arbiter of regional security. Important U.S. interests in the region include the defence of Taiwan, peace and denuclearization on the Korean Peninsula, freedom of navigation, and ensuring Japanese security, so that Japan will not feel compelled to develop nuclear weapons. The forward U.S. military presence is not expected to diminish significantly by 2005. Meanwhile, for all the talk about "engagement", the containment of China will probably be the overriding strategic objective in everything but name.

Russia and China

Given their nuclear arsenals, the certainty of leadership changes, and the possibility (even if remote) of fragmentation, Russia and China could be the focus of the most intense international scrutiny. In the event of political uncertainty at home, future regimes in either country may be tempted to pander to excessive nationalism and to champion adventurism abroad in order to rally domestic support among disparate groups in society.

Of the two, Russia will probably pose less of a challenge to international stability. Though it retains a formidable nuclear arsenal, with its myriad problems Russia will still in 2005 be some years from having fully recovered its military strength and should not be a threat to most of its neighbours. It will continue to vacillate between economic and military reform and, given financial constraints, Moscow will find it difficult to implement both simultaneously.

China could pose a greater challenge if it avoids internal fragmentation. Although unlikely, that scenario will remain a possibility in the period to 2005 (see Annex for the implications of such a scenario). By virtue of its size, population and economy, China will be the predominant power in Asia with an expanded capacity to project conventional power within the region. As such, it may feel less obliged to abide by international norms of conduct on issues like Taiwan, the Spratly Islands or the proliferation of advanced weaponry.

Potential Great Powers

Apart from the great powers, there are several pivotal states whose external behaviour will affect global stability. Informal spheres of influence are developing around such regional powers as Brazil, Indonesia, South Africa and India. These states have the means and the ambition to operate in their own "neighbourhoods" without having to defer to the preferences of the great powers or multilateral organizations like the UN. Indeed, even in the face of (potential) opposition from one or more major powers at the level of the P-8 (Political Eight, the political extension of G-7), these pivotal states may find unprecedented opportunities for action – whether of a constructive or a mischievous nature.

Ethnic Conflicts and Religious Fundamentalism

Ethnic and religious disputes have long been a root cause of intra- and inter-state conflict. Multi-ethnic political entities like the former Soviet Union and Yugoslavia have succumbed to violent struggles for self-determination. Ethno-religious differences have also aggravated disputes between states, as has been the case in South Asia and in the Arab-Israeli context. While the initial phase of post-Cold War "aggressive nationalism" may well have run its course by 2005, several such conflicts could persist, perhaps frozen in time, where the military ascendancy of one side or external intervention will have stopped the fighting but not resolved underlying problems often going back many decades (if not centuries). In other cases, like Chechnya, ethnically-based entities could gain semi-autonomous status. Such quasi-independent states could pose serious challenges to regional stability, especially if "state" authority fails to emerge and they continue as centres of criminal activity and terrorism.

Failed States

The "failed" or "dysfunctional" state, increasingly prevalent in sub-Saharan Africa and elsewhere, has created pockets of near-anarchy, breeding violence, crime, scarcity and disease. The reaction of the international community to such failure has varied. In Somalia, Liberia and most recently in Zaire, pressure has built for some type of intervention, whereas in other cases (such as Afghanistan), no such influence has been exerted. In the period to 2005, there will likely be more failed states, and more pressure to "do something" in at least some circumstances. Even where action seems necessary, it will often remain unclear, given the complex problems which lead to societal collapse, what the best course of action is, particularly from a military standpoint, and there is a danger that countries which have so far proven willing to intervene may tire of, or simply run out of resources for, addressing recurring crises.

Other Factors

Border Security, Territorial Integrity and Sovereignty

Though debate continues on the prospects of Russia, China and India as unitary states, it seems that the territorial basis of the world's major political actors is not likely to change significantly over the next decade. At the same time, the growing permeability of boundaries is having a profound effect on the notion of state sovereignty. In parts of Africa, the collapse of governmental authority has seen old patterns based on ethnicity and commerce re-emerge, making largely arbitrary borders inherited from colonial powers irrelevant. Everywhere, states that rely on the control of information to help maintain internal order are finding that it is increasingly difficult to stop the flow of data at their borders.

Developed countries are no less vulnerable than other nations to transnational challenges to their sovereignty, among them the cross-border transmission of pollutants, foreign overfishing and external pressures on currency. Increasingly, national policy-making will be constrained by the public accessibility of information and culture emanating from foreign countries. Even border security is becoming more difficult to ensure, and in some problem areas – such as smuggling, illegal emigration, narcotics and organized crime – the difficulty in controlling borders has economic implications. In other areas – among them, terrorism and infectious disease – permeable boundaries permit the passage of potential physical dangers to a country's population. On many questions, by 2005 it is likely that at least some states will have begun to band together to seek some measure of control over the most pressing among the forces that they are unable to address on their own.

New Security Architecture

The end of the Cold War may have removed the direct military threat to North America, but challenges to Western interests persist and emphasize the importance of multinational operations, whether carried out in traditional alliances (NATO) or as "coalitions of the willing". Challenges, such as the proliferation of weapons of mass destruction or terrorism, are increasingly likely to be linked not to a particular country (though rogue states may well be implicated in activities of this sort), but to be transnational in nature.

NATO is the principal forum where the stresses of creating a new European security architecture have been working themselves out. There already exists a core group within NATO (the U.S., Britain, France, and Germany), and this is not likely to change as "contributions to the Alliance" – another way of saying relative power – become the litmus test of influence.

NATO's ability to provide the core of the structure required to undertake peace enforcement operations in Bosnia has helped redefine and reinvigorate the Alliance. Nonetheless, such opportunities for involvement in out-of-area operations are unlikely to be frequent. At the same time, while NATO is becoming more Euro-focused, it may not remain undisputed as the cornerstone of European security, in part because, though developed quite independently, the policies of Russia and France could reinforce each other in challenging the primacy of the Alliance in regional security. Both of these countries may be expected to promote the OSCE, for example, and to oppose exaggerated assertions of American leadership. While Russia's decay (military as well as economic) will have only slowly begun to reverse by 2005, that country's continued perception of NATO enlargement as a humiliation, and the Alliance's inability to address Russia's concerns regarding its eastward expansion, could well have the effect of hardening new demarcations across Europe and limiting the number of new NATO members by 2005 to fewer than initially expected. Meanwhile, countries left out of the new arrangements will be in limbo, and could become potential sources of conflict.

The emphasis on regional security arrangements, which has become a reality in the 1990s, will likely continue. The growth of regionalism, not only in Europe but in the Commonwealth of Independent States (CIS) and elsewhere, will enhance the profile of regional security systems as states attempt to accomplish together what they cannot do alone. However, the tendency for regional security arrangements not to be backed by effective force (for example, in the WEU and CIS) could restrict their effectiveness. The one significant exception to the trend towards regional security systems may be the Asia-Pacific region, which in 2005 will likely continue to rely on a hub-and-spoke approach (bilateral mechanisms, dominated by U.S. defence arrangements).

Despite the persistence of traditional alliances, the increased role of regional security organizations and the periodic emergence of "coalitions of the willing" around specific issues, there will likely be continued tension between multilateral and unilateral approaches to security. Middle and small powers tend to favour membership in multilateral regimes as a means of enhancing their influence. Great powers, on the other hand, tend to be restive at the restraints of multilateralism.

For fifty years the UN has been a significant element in the international security order. In the early 1990s, great power cooperation gave the Security Council considerable authority, but this goodwill is on the wane, and in the years to 2005, an increase in the permanent membership of the Security Council and the reemergence of significant great power competition may further weaken the scope for collective action. The UN will undoubtedly still provide a framework for international action, but its financial problems and the ambivalence towards it of key members, like the U.S., may reduce its scope of activity, enhancing the likelihood that regional and *ad hoc* arrangements will assume greater prominence.

Arms Control and Disarmament

Since the end of the Cold War, substantial progress has been made on a number of arms control fronts. Unfortunately, the momentum that was so apparent earlier has slowed. Progress is still possible, but it must be weighed against the difficulties in ensuring ratification and implementation of signed agreements. Perhaps the greatest arms control challenge will be the proliferation of mass destruction weapons and their means of delivery, especially in areas of potential conflict. Rejecting global non-proliferation norms, countries like Iraq, North Korea and Libya are continuing their pursuit of nuclear, chemical and/or biological arms. Notwithstanding the qualified success of arms control initiatives in this area, some proliferation will inevitably continue. Mere possession of such weapons by rogue states could be enough to inhibit the ability of coalitions to counter threats posed by those countries. Actual use of such weapons against the regional allies or partners of the great powers could implicate those powers. Likewise, the presence of such capabilities in

South Asia and the Middle East is, and will continue to be, a worrisome addition to existing military rivalries.

Peace Operations and Peace-building

There has been rapid growth in the number of international peace operations since the end of the Cold War and, while the enthusiasm for launching new operations, characteristic of the international community in the early 1990s, has waned, the demand for peace operations will persist during the years leading up to 2005. This continued demand will result from the persistence of low- to mid-intensity intra-state conflict, and from the humanitarian crises often engendered by such conflict.

Despite the obvious potential for synergy, clear distinctions will continue among peace operations (military activity encompassing a wide range of functions from monitoring conflict to peace enforcement with the goal of reversing aggression against the territory of another UN member) and peace-building (civilian activities aimed at building a sustainable infrastructure of human security).

Military Trends

Current conflict trends indicate that in the period to 2005 some 20 to 25 major armed conflicts are likely to be underway in any given year, ranging from internal unrest within a state to open hostilities between states. The most likely form of conflict will be intra-state violence in the developing world, but at least one inter-state war is quite possible, likely prompted by unresolved boundary issues or competition for resources. There may also be an increase in terrorism as adversaries fearful of retaliation, and unable to match the sophisticated weapons technologies of advanced nations, resort to unconventional approaches that target the perceived weaknesses of the most developed states. The new phenomenon of information warfare (that is, the effort to seize control of electronic information systems during a conflict) will become increasingly important. The number of states possessing weapons of mass destruction and their means of delivery is likely to increase, and the possibility of non-state actors acquiring at least crude forms of these weapons cannot be discounted.

Over the next decade, peace operations will require intervening forces to be quite heavily armed if, as expected, the international community decides to undertake new missions with only limited or no consent of the parties, or if governing entities do not have, or choose not to exercise, full control over the actions of their militaries. This will put a premium on interoperability of coalition forces. There may also be occasion for traditional peacekeeping operations to address intra-state conflict. While arguably the least probable, enforcement action to reverse aggression is the most likely form of peace operation to require intervening coalitions to become engaged in traditional (high intensity) war. The exact mix of peace operations undertaken in the years to 2005 will depend on the interests involved: where their vital interests are not threatened, the great powers will be more reluctant to commit significant resources.

Military Technology

Military technologies are undergoing rapid advances. The exploitation of space for surveillance and communications offers a significant advantage to states with access to these systems. Communications, computers and information management systems are altering command and control functions, allowing military forces to provide a more rapid, effective and flexible response in crises engendering military action. Precision-guided munitions offer the promise of dramatically improving the effectiveness of many traditional weapons and reducing civilian casualties. Technological advances were exploited, and have been influenced by, combat experience in the Gulf War. Many will likely be used advantageously in low-intensity conflicts; for example, advanced surveillance

technologies will enhance knowledge of events in space, in the air, at sea and on the ground. Other advances will exert strong pressures on existing arms control regimes, such as the Anti-Ballistic Missile Treaty and the 1967 Outer Space Treaty.

Substantial changes in military organization and doctrine are also occurring. Among armed forces in the developed world, the balance between quantity and quality is rapidly shifting towards the latter. Increasingly sophisticated technology is demanding more highly trained personnel, accelerating the move away from conscripted forces. These trends will persist, such that successful military intervention in 2005 will require flexible, highly agile and mobile forces that can be re-configured quickly to meet changing battlefield conditions. Operations will increasingly call for "joint" operations, meshing the capabilities of ground, sea and air forces, and "combined" operations, bringing together the forces of several nations.

Domestic Impacts

In contrast with the purely domestic missions of National Defence and the Canadian Forces – ranging from humanitarian assistance to Aid of the Civil Power – their activities abroad have more impact on the international sphere than at home. That is not to say that their domestic repercussions are negligible.

Conflicts in the international arena can have sharply negative effects on countries not directly associated with them. However, a number of factors (among them, geography and the nature of Canada's trading patterns) generally spare this country the worst consequences of such conflicts. Thus, Canada is likely to avoid the refugee influxes experienced by countries contiguous to international hot-spots.

Ethnic Communities

Canada is not itself immune, however, to the effects of conflict and can also be immediately affected by detrimental impacts on allies or partners. Already a number of "homeland" conflicts have had reverberations within some of Canada's ethnic communities (Irish, Croatian, Sri Lankan, etc.). Even a reduced and more controlled influx – by comparison with other countries – of immigrants and refugees can bring with it an increased incidence of organized crime, infectious disease and terrorism. Probably the most significant impact of state failure on Canada will be the humanitarian pressure to "do something." For their part, while the rogue states will not yet be in a position to threaten Canada directly by 2005, the potential for a threat from their weapons of mass destruction beyond that date cannot be ignored as prevention or mitigation of their effect later in the 21st century could require defence capabilities whose architecture must be developed before long.

Challenges to Canadian Sovereignty

Globalization will inhibit Canada's capacity to regulate encroachments from outside our borders. More direct challenges to the assertion of Canadian sovereignty, similar to the 1995 fishing dispute with Spain, may be anticipated by 2005. As for border security, Canada-U.S. relations may well be influenced by the degree to which we coordinate efforts in addressing common problem areas, from narcotics trafficking and terrorism to the looming threat of rogue states with intercontinental weaponry.

Involvement in Peace Operations

In principle, involvement in peace operations and peace-building are consistent with Canadian values and traditions, particularly when initiatives are for clearly identified humanitarian roles. It is anticipated that public interest in, and expectations for, such

initiatives will remain generally high and, accordingly, that there may be a premium on ensuring that peace operations involving the Canadian Forces produce results intended

Public Support

The complexity, escalating costs and risks associated with peace operations in the 1990s, and declining defence budgets in most industrialized countries, mean that there is a limit to how much can be accomplished. However supportive of operations intended to alleviate suffering, the public may well impose tacit criteria of costs, casualties, political consensus and success for Canadian participation in the potentially riskier missions. Domestic support may also be weakened by a loss of public consensus for foreign roles in general, and a sense of the futility arising from the failure of over-ambitious operations and the scale of humanitarian problems. Support for numerous peace operations and peace-building programmes may therefore be difficult to marshal or sustain, especially in time of economic difficulties, or if the Canadian Forces bring military personnel in contact with dangerous diseases that subsequently affect Canadians in relatively large numbers.

Opportunities and Challenges

Canadian Security Policy

Canada-U.S. Relations

In the years to 2005, Canada's bilateral relationship with the United States will remain a key dimension of Canadian security policy. The global leadership role of the U.S., and its unique capacity to project power, will ensure that it will continue forcefully to affirm its interests and, where possible, will do so by means of *ad hoc* arrangements with like-minded nations that are able to participate in resolving international security problems of special interest to Washington. This will likely produce increased demands from the U.S. for defence spending by Canada, both in North America and for overseas contingencies. This could manifest itself quite directly in NORAD, especially with regard to continental ballistic missile defence systems. Our choice might then be to contribute or risk losing our relatively privileged position vis-à-vis the U.S. on defence matters. More generally, Canada will need to maintain responsive military forces which are interoperable with likely coalition partners, especially the U.S. military.

Participation in the UN

In recent years, Canada's armed forces have participated in numerous UN peace operations driven by humanitarian concerns, a pressure point that is likely to reappear time and again in the years leading to 2005. The incidence of ethno-religious conflict in the developing world is likely, however, to challenge Canada's definition of its national interests, given that we often do not have any clear direct political or economic stake in the regions where such conflict occurs. Indeed, with continuing fiscal pressures at home, the government may find it difficult to persuade Canadians to support our participation in some peace and humanitarian operations. Canada will have to determine where it can most usefully direct its limited resources in order to manage and ultimately help resolve such conflicts.

Risk of High Intensity Conflict

Traditional risk factors will also endure. Russia will retain, and China will enhance, its capability to strike North America with nuclear weapons. Weapons of mass destruction will proliferate, and rogue states may threaten key interests of Canada and its allies. Canada's response to these challenges will emphasize prevention and deterrence. The

use of force in response to security challenges will continue to be viewed as a last resort. For its part, NATO's increasing inclination to extend nuclear deterrence to non-nuclear proliferants armed with chemical or biological weapons – despite the nuclear powers' security guarantees extended as part of the Nuclear Non-Proliferation Treaty (NPT) – could create tensions between Canada's commitment to the Western Alliance and its commitment to arms control and the NPT.

Arms Control and Disarmament

The degree of consensus on global security questions that produced landmark arms control agreements during the initial post-Cold War period has weakened. Rising powers like China, India and Brazil will want ready access to advanced military technologies, and may thus be less likely to support global arms control efforts. Informal arrangements focused on suppliers, as opposed to broad-based treaty restrictions, could prove more useful. An emphasis on regional agreements may also be helpful. If so, the focus of arms control activities might shift from so-called "big-ticket" items, like major conventional and nuclear weapon systems, to small arms.

In the period to 2005, there may be a need to re-think Canada's approach to arms control and disarmament in light of the above trends. Our traditional emphasis on verification may lose some of its currency, as it is extremely difficult to verify compliance with restrictions on, for example, biological toxins or agents. While we recognize the uniqueness of Asian and Latin American situations, Canadian expertise in confidence- and security-building measures, derived from the European experience, is already being put to use in these regions. Indeed, this may be one of the more productive contributions Canada can make.

Arms control failures often reflect a deteriorating political-military situation. Should hostilities occur, the Canadian Forces may be called upon to participate in peace or coalition operations. Although it may be difficult to forecast resort to weapons of mass destruction, where such weapons form part of regional arsenals Canadian Forces members deployed in such regions will require adequate protection to guard against being attacked by such weapons. Should potential enemies eventually develop ballistic missiles which can target North America, Canada will need to determine the most effective means of defending itself against such a threat. Specifically, it will have to balance the very significant cost of Canadian participation in ballistic missile defences against both the risk of becoming irrelevant to a major dimension of its defence and the possibility that rogue regimes might prefer "anonymous" or surrogate attacks, using weapons of mass destruction, against North America (and Europe). Canada may also be at direct risk of nuclear, chemical or biological attack by state and non-state actors in the form of terrorist acts.

Peace Operations and Peace-building

Many of the existing international mechanisms for resolving conflicts were established at a time when the greatest danger was conflict between states. Some argue that current international institutions were designed for another era, and that there is a need to elaborate more sophisticated tools for conflict management and prevention because of the competing demands of sovereignty and "human security." Canada will need to balance these demands, taking into account both popular pressures to "do something," in order to save lives and prevent further hostilities, and the position of the warring parties, who may be hostile to the introduction of foreign troops or oppose international intervention in its entirety. With regard to peace-building, Canadian initiatives will most likely be in areas where Canada's governmental and non-governmental organizations have developed expertise and capacity in both bilateral and multilateral contexts. There may also be an opportunity to use the skills and experience of Canadians of ethnic origin to help develop peace-building strategies.

Military Trends

In structuring its armed forces for the future, Canada will want to factor in both the low risk-high likelihood of intra-state conflict and the continued higher risk-low probability of inter-state war. Given the range of possible challenges, the maintenance of multi-purpose, combat-capable forces that can contribute to the full spectrum of military operations seems prudent. In recognition of the rapid pace of technological change, Canada would probably benefit most by maintaining its traditional strengths and building up new ones in areas where it already enjoys significant expertise, such as communications, information processing, remote sensing, and space systems. These hold the promise of civilian spin-offs and are likely to be central to the successful conduct of all forms of future military operations. Furthermore, an inferior surveillance capability might result in Canada knowing less than the U.S. will regarding events occurring on Canadian soil, with negative implications for our sovereignty.

Given the pre-eminence of the United States in military capability and the importance of the U.S. to Canada as both a neighbour and an ally, our doctrine and equipment, like those of other potential coalition partners, will have to stay reasonably in step with the U.S. to maintain interoperability with the U.S. forces.

Challenges and Opportunities

In general, the Canadian government will need a broad intellectual framework that attempts to forecast perturbations in the international system in light of Canada's interests and resources. Major "discontinuities" are unlikely to be foreseen, and such a framework should be designed to provide policy-makers with a range of credible responses enabling them to respond coherently to crises as they arise, whether or not they have been anticipated. It should be recognized that, as far as political/military developments are concerned, there is within government a rather solid research capability that is already assessing, or can examine, many of the issues identified in this paper, and that, in fact, government may well be the proper locus for much of it, given that direction in areas such as the definition of national interests should, in the main, properly come from the political office-holder.

In light of the likely re-emergence of great power rivalry, the government will need continuing access to research that assesses strategic trends associated with existing or potential great powers (or regional powers) and Canada's security interests vis-à-vis those countries, and that systematically re-examines multilateral institutions and Canada's international obligations. Canada's relationship with the U.S. will have a significant impact on Canadian security policy well beyond 2005, particularly as proliferation and other threats, traditional and non-traditional alike, increase U.S. concern over North American security. Canada will need to keep abreast of, and deal with, U.S. security concerns, present and future, as they affect Canada.

In this regard, Canada may need to emphasize its reliability as a partner/ally both in North America and on the broader international scene. What this involves, in light of the resources available, might be a fruitful avenue of investigation. For example, the government is well-equipped to assess the potential threat to North America from ballistic missiles, as well as Canada's potential role in defence against such attack. Given the unrivalled military capability of the U.S., and the resulting primacy of American doctrine and equipment, another priority area would be the assessment of the interoperability requirements of military association with the U.S. (as well as other likely coalition partners). In this regard, research could usefully pinpoint Canadian strengths – in the high technology command and surveillance sectors, for example – not only maximizing Canada's contribution to specific operations but also enhancing spin-offs in sectors that are not directly related to the security issues in question.

Countries that threaten international stability or the interests of Canada and its partners need to be identified, along with the sort of threat they represent and the means of

preventing such threats from materializing or of responding to them, should they do so. For example, there is a requirement for research into the efficacy of sanctions against regimes that do not subscribe to international rules. Another study would seek to establish the factors (such as the media) that promote or inhibit international or Canadian involvement in humanitarian crises. The need to respond rapidly to crises, whether military or humanitarian, suggests the need for a current database that will assist both policy-makers and the military and civilian personnel committed to remedial action.

The variability of public concern over foreign and security policy issues (in the humanitarian sphere, for instance) indicates a requirement for the definition, and wide public dissemination and acceptance, of Canada's vital interests as they relate to security. A number of potential research areas could be identified, including analyses of the threat posed by weapons of mass destruction, new weapons and the arms races of the future, the competing demands of sovereignty and "human security," the impact of public concerns regarding casualties, the range and effectiveness of potential military responses to a variety of scenarios relating to instability or conflict, or the relationship between intra-state conflict and the trading concerns of Canada and its partners. One important area of research concerns confidence- and security-building measures as they relate to both arms control and to regional security, and the assessment of the efficacy of particular measures in specific contexts.

The collapse of authority in some states has been a major reason for recent operational deployments of the Canadian Forces, and thus the limited understanding of the phenomenon should be addressed, assessing not only the factors that lead to collapse, but also the warning indicators, and the responses open to the international community for mitigating their impact. Given the increased involvement of non-governmental organizations in peace-building, their ability to react quickly, and their limited resources and focus of action, the strengths and weaknesses of governmental and non-governmental participation in humanitarian relief situations may need study, to assure complementarity and an effective response.

Political and Military Security – Research Agenda

1. Causes of Conflict and Possibilities for Avoidance

- The role of religion and ethnicity in conflict
- The challenge of societal collapse, factors that lead to collapse, warning indicators, and the responses open to the international community
- The impact of sanctions on the behaviour of pariah states like Iraq that do not subscribe to international rules
- Development of a database to help assess conflict potential round the world and the security implications for Canada
- Confidence- and security-building measures as they relate to arms control and regional security, and how other countries view these issues
- Arms control and the global information infrastructure (cyberspace)

2. Military Issues

- Types of arms that may be used in future conflicts
- Degree to which Canada and other Allies are maintaining interoperability with U.S. forces, and steps which Canada must take to maintain interoperability with major potential peacekeeping and coalition partners
- Developments in military technology identifying areas to which Canada could contribute and from which it could derive the most beneficial spin-offs
- Analyses of the threat posed by weapons of mass destruction, new weapons and the arms races of the future

3. Peace Operations

- How peace operations should be "sequenced" from early, short-term military assistance to follow-on, longer-term civilian activities
- Strengths and weaknesses of governmental and non-governmental participation in humanitarian relief situations, and in particular the role of non-governmental organizations in peace-building

4. Other Issues for Canada

- Threats to Canada posed by intra- and inter-state conflict
- Forecasting perturbations in the international system in light of Canada's interests and resources
- Strategic trends associated with existing or potential great powers (or regional powers) in relation to Canada's security interests
- Analysis of competing demands of sovereignty and "human security"
- Impact of public concerns regarding potential military responses to a variety of scenarios relating to instability or conflict
- Relationship between intra-state conflict and the trading concerns of Canada and its partners

11. Governance

The Issue

International trends of economic globalization, advances in communications technology, the proliferation of regional and international organizations, new threats to human security from intra-state conflicts, growing economic and social disparities among and within regions and states and the growth of powerful non-governmental actors can be expected to have a major effect on our institutions of governance at both the national and the international levels. We can expect the next decade to pose significant challenges for our regulatory regimes and governing institutions. In this paper we try to identify what we know – the shape of those challenges and the pressures they will bring to bear on governance – and what we need to know – i.e., research to fill current gaps in strategy and policy.

Three principal trends and their implications are explored:

- ☐ weakening of the power national governments, by “downloading” to the state, provincial or local level, by “uploading” to supranational agencies and by “off-loading” to non-government actors such as NGOs, private firms and individuals;
- ☐ gaps in global governance on matters such as security, trade, human rights and the environment, and,
- ☐ the rising frequency of intra-state conflicts.

Trends

Globalization and the Shrinking State

We are already witnessing how our existing governance structures seem unable to cope with the centrifugal pressures of globalization. Goods and services, people, money, normative institutions and behavioural patterns, ideas and information are now moving across state borders at unprecedented rates.

These forces of globalization have brought about a profound change in the perceptions of individuals about their relationship to the group, the community, the nation and the world. As state borders become more porous, loyalties and deference to those states become less salient.

Over the past few years most industrialized countries, including Canada, have seen a profound shift of power away from central governments. The once uncontested authority of states and central governments is being challenged by the rise of non-governmental actors and by the development of international organizations and arrangements that seek to hold all nation-states accountable to certain standards of behaviour.

Power has become more diffuse by shifting downwards – to provinces, states, local governments and communities; laterally – to the private sector and non-government actors; and upwards – to regional and international organizations. In effect, Government is no longer seen as the sole or even the primary institution of Governance.

Downloading Power

Industrial countries have been steadily decentralizing government control over decision-making and economic resources. By 1994, in most industrial countries, the local or state government share of total government expenditure had risen to 20 to 35%.

Canada has been in the forefront of this movement to decentralize to sub-national actors, with the provincial share of revenue increasing significantly over time. In 1945, 80% of government revenue lay in federal hands and only 20% in provincial, but by 1995 the ratio was approximately 40% federal to 60% provincial. This decentralization of government control will have a number of implications for Canada's role in the world.

First, Canada will increasingly find itself in a position where existing international commitments made by the federal government, particularly in areas of social spending, are not being met. Traditionally the Canadian federal government has intervened to reduce disparities and assist individuals, communities and regions in need to adjust to economic and social change. But in recent years high deficits and rising indebtedness have curtailed the federal governments' capacity to play this role of social readjustment, while provinces been unwilling or unable to take up the slack. The result is a patchwork of standards – some of which conform to Canada's international commitments and others which do not.

The growth of international complaint mechanisms will mean that governments in Canada will increasingly face international scrutiny of their record in implementing international obligations. This has already begun – in recent years the International Committee on Economic, Social and Cultural Rights and the Committee on the Rights of the Child have criticized Canadian and provincial legislation and programs for their failure to live up to treaty commitments.

The risk is that Canadian governments may become more inclined to isolate themselves from international law. Canada's historic role in multilateralism and our effectiveness in convincing other countries to develop rules is due in part to the fact that once there are rules Canada is willing to play by them. Our status as a middle power also gives Canada a direct interest in developing and supporting an international rules-based system.

Over the next decade, work will be needed to harmonize federal and provincial policies and laws in order to minimize disparities between Canadian and international standards. This will also contribute to building a provincial base for foreign policy dialogue within Canada. With devolution the provinces will increasingly be responsible for implementing international obligations. We can also expect to see increased demands from the provinces (and local governments) to participate more actively in the formulation of Canadian foreign policy and in the articulation of Canadian positions at international forums.

Trends in devolution of central government power will also have an impact on how we spend our Official Development Assistance dollars. In developing countries, the trend toward decentralization is less marked than it has been in the industrial countries – in 1994 local spending was usually below 12% of central government spending. In the area of social spending, the gap between industrial and industrialized countries is wider: 95% of total social expenditure is controlled by the central government in developing countries versus an average of 75% in industrial countries. If decentralization is seen at

home as a good way to promote participation, accountability and efficiency in program delivery, then perhaps our international fiscal policies and channels for development assistance should also encourage decentralization in developing countries.

Further research may be needed on the link between the decentralization of spending power and the ability of governments to meet basic human needs, as well as the implications of such policies for social cohesion. We will have to consider how best to position our ODA and to cooperate with the International Financial Institutions in order to foster responsive community institutions and wider political participation in developing countries.

Canadian governments must enhance inter-departmental and federal-provincial coordination of "horizontal" economic, social and environmental issues, so as to minimize possible disparities between international and Canadian standards.

The federal government will also have to develop closer collaboration with the provinces on the formulation and articulation of Canadian foreign policy positions.

Further research will be needed on the degree of devolution of central government control of resources, particularly social spending, in developing countries, its impact on social cohesion and fragmentation and implications for our Official Development Assistance budgets and our policies in relation to the International Financial Institutions.

Uploading Power

The forces of globalization have also brought about an unprecedented and largely voluntary transfer of authority and sovereignty upwards to supranational organisations and to supranational norms and standards.

Multilateralism

Since the Second World War, Canadian foreign policy has focused on multilateralism. On some issues, especially those pertaining to our relations with the United States, bilateral negotiations will continue to offer an effective, timely and predictable means of achieving our goals. A regional approach may also be favoured on some issues, notably trade, given that such arrangements can often be established more quickly than broad international agreements. However, given the imperatives of a globalized world, our small population, large geography and dependence on trade, Canada will likely continue to find its foreign policy objectives on a wide range of issues best served over the next decade by a focus on multilateralism and by working more closely with international organizations and coalitions of like-minded states.

The global nature of many of the issues facing Canada – transboundary crime and pollution, new threats to international and regional peace and security, and a globalized economy – means that Canada does not really have a choice between being a globally engaged country or withdrawing to the North American region or to unilateralism to promote our interests. As a middle power and a neighbour of the last remaining superpower, it will be in Canada's continuing interest to strengthen multilateral organisations and to support the development of a rules-based international system which will keep everyone at the table and limit the scope for the major powers to act unilaterally.

At the multilateral level, Canada has traditionally been an inveterate joiner of every international club. However, shrinking government resources and an increasingly complex international environment have meant that we may now be spreading ourselves too thin to make an effective contribution. The proliferation of international organisations (NGOs) has been exponential – from 1909 to 1992 the number of NGOs multiplied 150 times,

from 213 to 32,068. There has also been a proliferation of new members at the international level over the past few years. Twenty-nine countries have joined the UN since 1990, bringing the total number to 185. In this ever-widening community of states, with only one remaining superpower and where the majority of countries crowd the middle ground, states are finding it increasingly difficult to be heard.

Canada is also confronted with the growing solidarity of regional arrangements to which it does not belong. For example, increasing European Union coordination on foreign policy and other issues means that Canada finds less support from its traditional like-minded partners. American isolationist tendencies have the same effect. The numerical strength of the non-aligned movement also means that like-minded Western states find themselves more often fighting losing battles. These trends combine to make it harder for states like Canada to exercise influence in multilateral fora.

The key to optimizing Canada's influence will be to focus our efforts on issue-based alliances, where we change the company we keep according to the issues we are negotiating. This will involve identifying Canada's comparative advantages on certain issues, establishing which international organisations and coalitions of like-minded states should have priority on which issues, and working to reform those institutions so as to optimize their effectiveness both in terms of cost and impact. This is not to say that Canada should withdraw from those international institutions which do not demonstrate an immediate net benefit for our national interests. Geopolitical power balances are unpredictable and interests and regions that appear indirect and remote today have a nasty habit of becoming direct national interests tomorrow. The question over the next decade will not so much be whether we should be "in" or "out" of specific international organisations but how we should be in them.

The complex and overlapping network of international organisations has been criticized as inefficient. However, overlapping institutional structures can actually work to our advantage – allowing flexible responses to changing political circumstances and problems of membership. When Canada wishes to criticize a certain country for its human rights record – Nigeria for example – plurilateral organisations such as the Commonwealth may have more impact than the United Nations. Or when Canada has an interest in a certain security issue, we may choose to use our membership in NATO or the G-7 to push our views into the Security Council, where we are not a member.

The Rule of Law

While institutional overlap may not be a bad thing in and of itself, there is a risk of creating overlapping and conflicting international obligations and standards. For instance, increasingly binding investment and trade law regimes make it difficult for Canada to be out of step with its trading partners in its regulatory regime – i.e., if we want to set higher environmental or labour standards or conform to existing standards, we can't do so without violating our other international obligations. This creates a risk that governments will be forced into a position where they play a shell game, choosing to ignore their commitments to certain international law regimes while respecting other standards. This can lead to conflicting policy choices and fragmentation of an international rule-based system. Over the next decade, work will be needed on the harmonization of different international law regimes.

Canada will need to be more flexible, selective and pragmatic in its participation in multilateral organizations.

Over the next decade, harmonization of the many international law structures will important to Canada

Off-loading Power: The Rise of Non-State Actors

Power is not only shifting away from central governments to provincial, state and local governments, and upwards to the international level, it is also shifting away from governments altogether to non-governmental organizations, the private sector and individuals

The Private Sector

With globalization of the world economy, there has been a concurrent shift in power away from governments to the private sector. The number of multinational enterprises has grown exponentially – in 1972, there were approximately 7000 multinational enterprises. By 1992 the number had risen to 37,000. Multinational enterprises now control one third of the world's private sector productive assets. Flows of Official Development Assistance have been decreasing as donor countries cut their budgets – from 1992 to 1998, Canada's ODA budget will have decreased 26% in nominal terms. As flows of official aid decrease, private capital flows to developing countries are increasing.

The concern of course is that private capital flows are not intended to redress social inequities or to assist marginalized groups within countries. Nor does private capital tend to be directed to those countries and regions on the margins of the world economy. Although the integration of national economies into the broader global economy offers tremendous opportunities for many countries, some less advanced economies and regions, especially Africa, have been unable to take advantage of the opportunities offered by the growth in international trade and investment and financial flows to developing countries. In other regions, economic growth has not been synonymous with human development – there has been jobless growth in a number of countries – according to one recent study of 46 countries with positive economic growth, only 27 saw employment grow. Economic globalization combined with the fact that ODA is being cut and increasingly dwarfed by private capital, means that by 2005 the gap between those individuals, countries and regions which are doing well and those which are not will have widened considerably.

Private sector firms have neither the will nor the ability to take responsibility for public goods. However, even if donor governments at both the national and international levels can no longer afford to deliver social goods on the scale they used to, they can exercise their regulatory powers to achieve some of the same social ends. The problem is that ability of governments to regulate both nationally and internationally in the areas of the environment, health and human rights, including labour standards, is increasingly limited by international trade liberalization regimes. As international trade law expands over the next decade, sovereign government control over non-trade issues will be further diminished.

Governments will need a better understanding of how to make our fiscal and regulatory instruments keep pace with the trend towards greater privatization of both economic and public services.

To effectively regulate in the areas of environment, health, and human rights, including labour standards, governments will need to take a closer look at where "economic" and "social" agendas converge on particular issues. For example, child labour is a concern of business and labour unions as it represents unfair production and trade practices, but it is also important to Canadians generally, who feel that children should simply not be exploited.

Non-Governmental Organisations

Despite the shift of power in the trade field to the supra-national level, individual governments will be pressed to do even more in non-trade fields. There has been a sharp increase in the number and power of non-governmental organisations in the social, human rights, and environmental fields. In 1956 there were 976 NGOs participating at the United Nations, by 1992 the number had risen to 4,696, and the number has increased substantially since that time with the recent series of World Conferences on the environment, human rights, social development, women and housing.

International norms and standards in these areas have become increasingly comprehensive and binding in nature, and over the next decade we can expect the further elaboration of standards and the strengthening of international enforcement mechanisms. These phenomena mean that there will be increased pressure to put non-trade issues on the trade policy agenda and to include trade issues when addressing environmental, social, health and human rights concerns. There has already been some movement in this regard:

- On the trade side, NAFTA now has side agreements on environment and labour, the International Financial Institutions have been pressed to measure the social and environmental impact of their activities, and there have been calls for the inclusion of core labour standards in multilateral trade agreements (specifically, for a Social Clause in the WTO).
- On the human rights and environment side, there has been similar pressure to address the role of the IFIs and of Structural Adjustment Programs in fulfilling economic, social and cultural rights and environmental standards.

As we approach 2005, governments will have to further refine the tools they use to reconcile economic, social and environmental interests and obligations.

Increasing privatization will require governments, including those in Canada, to review their fiscal and regulatory instruments to ensure that international obligations are met. NGOs will be a major source of pressure in this area.

Broader Participation in International Processes

The phenomena discussed above have significant implications for participation in international processes. At the same time as national governments have transferred authority and sovereignty upwards to the supranational level, they have also devolved other decision-making powers to sub-national actors: the provinces, local governments. As well, they have relinquished significant areas of control to non-state actors such as business, non-governmental organisations and individual citizens. Inter-governmental structures, however, were based on the centrality of the sovereign state and, although states will continue to be the prime actors in international organisations, to retain their legitimacy those organisations will have to respond to demands for increased participation by sub-national actors.

Some have already started to do this. The recent series of World Conferences greatly increased the participation of non-governmental organisations, businesses and municipal governments, as did the recently concluded UN negotiations on the participation rights of NGOs. Within Canada the federal government is under increasing pressure from the provinces to include them in the development and articulation of Canadian positions at the international level.

At all levels of government – international and domestic – a critical issue is how governments can ensure that non-state actors are informed and heard so that their views

can be taken into account in developing policy positions. New forms of research and consultation are needed if business, labour, non-governmental organisations and indigenous groups are to act in partnership for both domestic and international ends.

Over the next decade we will need to improve our national mechanisms for consultation and participation of the provinces, NGOs and citizens in the development and implementation of international norms. We will also be under pressure to reform international organisations to open them up to participation by sub-state actors.

More information on international trends and the international debate needs to be shared in Canada to build a better base for policy dialogue. Surveys of views would contribute to informed debate – gathering information, sharing it more broadly and undertaking research in order to forge a shared Canadian view is a role that government could assume.

Governments need to ensure that non-state actors are informed and heard so that their views can be taken into account in developing policy positions.

Gaps in Global Governance

Peace and Security

On issues of peace and security, the debate over the next decade will be largely focused on overlap and complementarity between the United Nations and regional security arrangements. Some international organizations, such as NATO and Security-Council-mandated Chapter VII peacekeeping operations have significant capacity to mobilize quickly for deployment. Others, such as the OSCE, the OAS and la Francophonie may be better at confidence-building and preventive diplomacy. The UNHCR, coalitions of bilateral donors and networks of international humanitarian NGOs are often best placed to deliver emergency assistance. With new threats to human security and increasingly complex humanitarian emergencies, the question will arise about the appropriate division of labour between those IOs involved in traditional military activities and those better able to respond to non-traditional security threats.

Trade and Investment

As a trading nation with a relatively advanced medium-sized open economy, Canada has a strong interest in the continuing development of a trading and investment system that establishes "rules of the game" and offers protection against unfair practices. The debate in this area over the next decade will centre around the specific rules governing our participation and which institutions should apply them. A number of areas remain to be addressed, notably financial services, professional and transport services and intellectual property. It remains to be seen whether new fora will be required to address these issues or whether the existing international organisations can be adapted.

On the question of which IOs should apply international standards in the trade and investment fields, the major debate will likely be on the potential conflict between international regimes, such as the WTO, and regional arrangements. If the trend toward forming preferential trading blocs on a regional basis (e.g. NAFTA, hemispheric free trade in 2005 and Asia Pacific Free Trade in 2020) is not addressed within a broader international framework, the world could be divided into competing blocs. It is in Canada's interest to participate in a number of regional arrangements, but this can increase the cost of our participation in international regulatory regimes and undermine the development of an international rule-based system.

The International Financial Institutions will also bear scrutiny. Some of the key debates about the IFIs concern their roles in preventive and management functions such as surveillance, provision of information, stabilization of currencies), and cooperation with public authorities such as central banks to strengthen the global regime of financial oversight and supervision.

Sustainable Development, Environment and Human Rights

The forces of globalization have brought about a growing awareness of the linkages among peace and human security, poverty alleviation, environmental protection, and respect for human rights. At the same time, the roles of the international players are also changing: donor countries can no longer afford to transfer the same amounts of assistance to developing countries and consequently those countries are being asked to increase their own capacity for development.

The Third World is no longer a monolithic block. Levels of economic growth are increasingly uneven, and some countries and regions are marginalized from the world economy. There will be a broad debate over the next decade on reconciling the competing interests of trade, human rights and environmental protection so as to foster sustainable development and social equity, thereby avoiding fragmentation of national standards.

Another broad debate will be on the appropriate division of labour among the various international organizations. Key issues will include:

- how we can convert the international development organizations, which were originally designed as delivery mechanisms, to institutions able to foster self-reliance;
- whether we should shift the focus of the IFIs away from concessional lending to those developing nations with the best chance of becoming self-reliant and towards explicit poverty reduction; and,
- the best trade-off between short term economic growth and good governance plus environmental sustainability.

We will need to take a more strategic approach to our membership in various international clubs, with increased focus on forming issue-specific alliances of like-minded countries to counter the increasing solidarity of the European Union, the growing numerical strength of the Non-Aligned Movement and the potential for increasing isolationism and unilateralism of the United States.

Policy research will be needed on the harmonization of competing international law regimes, specifically harmonization of international trade regimes with regional trading arrangements and harmonization of trade with non-trade regimes such as environment, human rights and labour standards. Reconciliation of trade and non-trade regimes will have to address problems of social fragmentation and marginalization of certain individuals, countries and regions in the world. We will also have to identify current gaps in international law standards.

On issues of security, strategic policy work will be needed on the division of labour between international organizations best suited to traditional military responses and those engaged in humanitarian, human rights and peace-building activities to address non-military threats to human security.

In the decade ahead, Canada will need to participate in a wide ranging review of international institutions to ensure that their roles adapt to the new context

The Rise of Intra-State Conflict

A less benign phenomena associated with globalization and the decrease in state power is an increased risk of social fragmentation and the threat to political stability and territorial integrity it can pose in some states. In the new international environment of innovation and rapid change, some individuals, groups and nations have done well, but many others have not, and the gap seems to be growing.

The reaction of some of those who are not succeeding is to retreat to more traditional, sometimes extreme, values as a way of asserting their identity. Ironically, this risk is perhaps heightened by the trend in a number of countries away from authoritarian regimes towards democratic forms of government. Although the ultimate result should be a more peaceful international community made up of mature, stable democracies, the period of transition may be highly volatile. The reaction to democratization may be the emergence of aggressive nationalism that could even make these states more war-prone in the short term.

As a result, over the last decade there has been a marked increase in the number of intra-state conflicts. If this trend continues, it may be necessary for Canada to review the balance between defence and development assistance budgets. Related questions involve our participation in international peacekeeping efforts, our provision of humanitarian assistance and our reaction to increased demands on the immigration system.

ODA Implications

To help prevent the outbreak of internal conflicts, it is in our interest to seek new mechanisms to manage inter-ethnic tensions and to buttress fragile new democracies. At the international level, this will mean an increased focus on early warning mechanisms, preventive diplomacy and post-conflict peace-building. Canadian values, democratic traditions and institutions are highly valued in a world of growing democratization and this will place new demands on our development assistance for assistance in developing democratic institutions, building local institutions, managing elections and improving human rights monitoring.

Increased flows of refugees and displaced persons will mean increased demands on our humanitarian assistance. If the current trend of decreasing Official Development Assistance continues, we will have to find new ways to collaborate with others to deliver assistance and to manage the risks and opportunities associated with international population movements.

Immigration Implications

The fragmentation of states will continue to foster population movements, with a concurrent increase in demands for immigration to Canada. This can be expected to change the demographic make-up of the country. The proportion of the Canadian population that are "visible minorities" has increased from less than 5% in 1981 to over 9% in 1991. If current immigration patterns and levels continue, it is expected that visible minorities will account for one in five Canadians by 2016. Recent opinion research has shown that Canadians are committed to equality but at the same time perceive immigrants as an economic threat. We will need public research to predict how public tolerance and acceptance of immigrants will evolve, enhanced education to help Canadians adjust to these changing demographics, and research on the adaptation of immigrants in the labour force.

Peacekeeping Implications

The rise of intra-state conflicts has changed the nature of multilateral peacekeeping. Where traditionally peacekeepers would interpose themselves between factions to monitor existing peace accords, now they are increasingly called on to intervene where there is no pre-existing negotiated peace, where there is only limited or no consent of the parties, and where there is limited government control over armies and rebel groups. The risk to peacekeepers in such situations increases. Donor countries may well find themselves increasingly reluctant to authorize peacekeeping interventions or to commit resources to such conflicts – in fact there has been a sharp decrease in Security Council-mandated Chapter VII peacekeeping operations over the past two years. Over the next decade governments will likely rethink their priorities and conditions for participating in multilateral peacekeeping operations. If donor countries continue to pull back from multilateral interventions, we may well see decreased lack of confidence in our multilateral inter-governmental organisations as they fail to “do something” to respond to humanitarian crises.

Intra-state conflicts have a complex range of root causes and the next decade may see a shift in focus away from peacekeeping operations with a “military” focus to more benign interventions with a “humanitarian” focus. This will require a shift in the kind of contributions Canada makes to multilateral interventions, with more focus on civilian peacekeepers, human rights monitors, the delivery of humanitarian assistance and institution building. This will require greater coordination among federal government departments and rethinking the division of resources among defence, justice and development assistance budgets. It will also require decreased participation by government and increased participation by the humanitarian agencies, human rights groups and other non-governmental actors involved in peace-building.

The rising frequency of intra-state conflicts poses major challenges for the international community and specifically for Canada. There will be important implications for national policy in areas from development aid to defence and immigration.

Conclusion

The challenge for Canada over the next decade will be to take a fresh look at the formal and informal systems by which Canadians manage their affairs, exercise their rights and obligations and mediate their differences, both at home and in the international arena. For both federal and provincial governments, this will require re-thinking the rules of governance, the types of services they provide and the ways they provide them. It will require opening up policy formulation and decision-making at the provincial, national and international levels by creating new partnerships with the private sector and increasing the direct participation of individual Canadians. It will also require re-thinking our bilateral and multilateral relations so as to optimize the benefits of globalization and mitigate its negative effects.

Governance – Research Agenda

Globalization and the Shrinking State

There is a need for research on:

- ☐ federal and provincial policies and laws to ensure that Canada's international obligations are met;
- ☐ how the decentralization of power affects the ability of governments in developing countries to meet basic human needs;
- ☐ how to promote community organizations and citizen participation through ODA and through cooperation with IFIs;
- ☐ the need for harmonization of various international law regimes;
- ☐ the need for changes in fiscal and regulatory instruments to deal with increasing privatization of economic and public services;
- ☐ the convergence of social and economic agendas in the new international context;
- ☐ new forms of research and consultation involving provinces, NGOs and individual Canadians in policy issues at home and abroad.

Gaps in Global Governance

There is a need for research on:

- ☐ potential conflicts among various international, multinational, regional and other regimes in both trade and non-trade areas;
- ☐ the full range of roles of IFIs;
- ☐ the division of roles between military and non-military international organizations.

The Rise of Intra-State Conflict

There is a need for research on:

- ☐ the evolution of democracy in developing nations, and especially the potential for the rise of extreme nationalism as a reaction;
- ☐ the causes and nature of intra-state conflict, including inter-ethnic tensions;
- ☐ early warning mechanisms and possible interventions to avert intra-state conflict, including the role of peacekeeping and ODA;
- ☐ the implications of changing demographics in Canada, including measures to assist the economic and social adaptation of immigrants;
- ☐ the implications of rising intra-state conflicts for Canada's policies in the areas of foreign policy, defence, ODA, immigration, etc.

12. Values and Culture

The Issue

This paper explores three aspects of Canadian values and culture as they relate to the international context

- ☐ cultural identity
- ☐ Canadian values
- ☐ immigration and the resulting cultural diversity

Culture, Values and Power in a Changing World

Diversity vs. Homogeneity

It's a small world (after all).

Disney anthem, (introduced at the World's Fair, New York City, 1964)

Any non-religious power, whatever form or shape it takes, is necessarily an atheistic power, the tool of Satan; it is part of our duty to stand in its path and to struggle against its effects. Such Satanic power can engender nothing but corruption on Earth, the supreme evil which must be pitilessly fought and rooted out.

Ayatollah Ruhollah Khomeini, from exile in France

Culture and values – seldom have they enjoyed more attention and been the subject of more debate in the study of international relations. At the core of much of this discussion is the issue of *diversity* versus *homogeneity* – represented in its most extreme form by the juxtaposition of Disney and Khomeini.

On the one hand, many argue that local particularity is doomed in the face of the cultural juggernaut of westernization or modernity. The evidence for this point of view is legion: the sheer pervasiveness – and seductive power – of pop culture (overwhelmingly American or American-inspired) in every part of the world, the rampant spread of consumerism, and the growing acceptance almost everywhere of life in an urbanized society governed by the imperatives of economic and technological efficiency – imperatives deemed inherently universalizing. (George Ball described the automobile as “an ideology on four wheels”.)

Forces for Homogeneity

The language of this new world is American, its religion – consumerism – is worshipped at the mall, and its secular values are transmitted through the flickering light of TV and cinema screens. True, there are those swimming against the tide, notably through the revival of national or religious identification; however, these resurgent movements are seen as last, futile gasps of vestigial cultures, the dispossessed and the unimportant.

Indeed, the most pessimistic argue that cultures cannot maintain their separateness if they also want the advantages of modernity: the pursuit of one negates the pursuit of the other. Communal identity can only be asserted forcefully today through economic and technological advancement and by participation in the life of the global community. Yet, this advancement is precisely what destroys the local differences that give substance to distinct identity. Economic and technological efficiency – the lifeblood of modern-day success – have their own internal logic. The “one best means” is necessarily the same everywhere and commitment to it demands that society be ordered in certain ways and that obstructive social values or cultural practices be discarded. Thus, nationalist movements that harness the forces of modernity unwittingly sow the seeds of their own destruction as entities that are distinct in any profound way.

The development of new information technologies appear to be accelerating this trend towards cultural homogenization. New information technologies, such as CD-ROM, are dominated by American producers and most Internet users live in America. Information technologies are also powerful tools for the dissemination of widely shared and accepted values that can bring people from around the world together in common cause.

For some, this homogenizing trend is a good thing – something that offers the prospect of peace, unity, world harmony and relative prosperity, if at the cost of independence, social cohesion, identity and a sense of community. Moreover, it is something that people want. The dominance of Hollywood on the world's cinema screens stems from consumer choice, not from America's military might.

Forces for Diversity

However, many others do not believe the world is on the path towards a universal, homogeneous state. The resurgence in ethnic conflict, nationalism and religious fundamentalism is not seen as a futile stop-gap measure against the inevitable; rather, it is viewed as powerful evidence that the world is not becoming as homogeneous as many think, nor that it can be as long as there is human choice. Indeed, one American political scientist, Samuel Huntington, has posited that the Cold War will be replaced by the Cultural War, characterized by tension and conflict among seven or eight great civilizations.

It may be that reports of the death of diversity are greatly exaggerated. Indeed, diversity continues to exist within the West, even within Western nations. The adoption of Western consumer goods does not mean that one adopts western values; nor can a product substitute for the universal human longing for meaning, community and identity. Moreover, participation in a modern urban economy does not guarantee that all local values will be thrown away for the sake of economic efficiency and competitiveness. Moslems can still don tools to pray to Mecca without serious risk of endangering their position in the global marketplace.

In addition, it is perhaps a conceit to view “western” values as those most suited to success in the modern world. Some of the countries which have been most successful in ‘modernizing’ – e.g., in Asia – attribute their success – both in economic and societal terms – to their own culture and values and not to those inherited from the west. Indeed, many Asians see western values as a source of decay and decline. Moreover, Islam, which has been seen as the force most in opposition to modernity, is also the faith of cultures that have made significant contributions to the development of science, mathematics and rational thought.

Finally, while the arrival of new information technologies appears to herald a new assault on diversity, it is also possible that as their cost drops and they become more accessible they may serve to counter – even undermine – the homogenizing influence of the American entertainment industry by allowing the inexpensive dissemination of a wider variety of cultural products to global markets. (It should not be forgotten that the Ayatollah Khomeini used the modern invention of analogue recording to preach his message from exile in France.) Moreover, just as these technologies make possible extensive networking among groups working for ‘universal’ values – social justice, gender equity and human rights – they can also be used in the same ways to spread hatred, incite violence and foster division.

Culture, Values and Soft Power

Where trends are taking the world is unclear; however, there can be no doubt that the processes of globalization are making culture and values more important in world affairs. Indeed, culture and values have become key elements of power and influence within the international system. They are, in fact, two of the major pillars of "soft power," the key aspects of which are influence, attraction and persuasion, not the ability to project military force.

Canada's Role in the World

As a middle power, Canada has, in the past, often pursued its interests within the world through soft power – in our bilateral relations with the United States, within alliances such as NATO, and through very active involvement in the multilateral system. In doing so, it has played a role disproportionate to its real weight in world affairs.

Culture and values can play a strong role in continuing this tradition. As John Ralston Saul pointed out in the position paper he prepared for the Special Joint Committee reviewing Canadian Foreign Policy, "to the extent that foreign policy is dependent on foreign public recognition, that policy is dependent on our projection of our culture. What's more, we are more dependent on that cultural projection than the handful of larger countries who are our allies and our competitors and who have other ways of projecting their image."

The implications for foreign policy are clear. Countries that do not figure in international communications, or that fail to project a sense of their identity, are at a marked disadvantage to those that do. They are at risk of invisibility in international affairs, of not being listened to or sought out. If Canada does not promote its values and culture abroad, no one else will. Given these realities, what are Canada's strengths and what are its weaknesses?

Cultural Identity

Canada has been in a unique, perhaps unenviable, position in the global community. Our geographic proximity to the United States, our shared western heritage and, for most Canadians, shared language, have made Canada the first state to experience – and think about – the homogenizing pressures of the American cultural empire and, in a more profound sense, of modernity. That reality is reflected in the degree to which American cultural products dominate the Canadian scene, particularly in English-speaking Canada.

Film and Television

English-speaking Canadians lead the world in the extent to which they consume foreign rather than domestic entertainment products and services.

Overall, in 1993-94:

- only 5% of screen time in Canadian cinemas was devoted to Canadian films;
- Canadian programming on television captured about 43% of viewer time (mostly due to higher levels of viewing for Canadian news, public affairs, instructional and religious programming); and
- Canadian content material accounted for 13% of total sound recording sales (although this was a 3% increase from 1990-91).

The rate of consumption of foreign cultural products differs between English and French-speaking Canadians. For example, about three-quarters of television viewing among English-speaking Canadians is of foreign (mainly American) programming whereas nearly two-thirds of French-speaking viewing is of domestically produced programming. Similarly, about 80% of English-language magazines sold in Canada in 1994 were foreign; in contrast, 95% of French-language magazines sold in Canada are Canadian. American films enjoy a 83% share of the Quebec market and a 96% share of the rest of the Canadian market (the figures for France, Spain, Great Britain and Australia are 58%, 77%, 84% and 76%.)

Thus, there are clear differences in the extent to which domestic cultural production is overshadowed by foreign cultural production. Moreover, concerns about the preservation of identity differ in their expression. English-speaking Canadians are likely to be concerned about the erosion of their identity by the pervasiveness of American cultural products. French-speaking Canadian are more likely to express their concerns in terms of language; specifically, how to preserve the French language in the English-speaking sea of North American.

In addition, Canada's French-language cultural industries face a somewhat paradoxical situation. On the one hand, the French language has served as a shield and has allowed the development of a vigorous cultural industry. However, this industry exists in a perpetual state of being, in the words of one observer, "strong but fragile". Strong because it has a natural market in place (French-speaking Canadians) but fragile because that market is so small when the language of expression is French.

New Information Technologies

Early indications are that the development of new information technologies will make foreign cultural products even more readily available in Canada:

The United States dominates the Internet. According to one study, 63% of Internet hosts originate in the United States. The surge of foreign content, much of it outside the scope of existing regulatory and technological barriers, poses an obvious challenge to domestic information and cultural content, adding to the already precarious position of traditional cultural industries. It also has potentially significant implications for language. For example, the basic character set used for e-mail on the Internet is ASCII, which permits only plain English characters.

CD-ROMs are also dominated by American producers. In 1994, 50% of the 9,500 CD-ROM titles on the international market came from the United States, compared to 43% for Europe and 7% for the rest of the world.

Ownership

Increasing concentration of media ownership, and the presence of foreign ownership of domestic media and cultural industries may also reinforce American domination. Major transnational corporations – most of them American – are pursuing vertical and horizontal concentration strategies on a global scale. The result is that cross ownership between press, audio-visual and telecommunications companies, as well as joint ownership of both production and distribution networks is becoming commonplace. This has the effect of concentrating power in the hands of fewer and fewer individuals who are in a position to decide what information and cultural products consumers receive. For example, in Canada in 1993-94 the top ten companies accounted for 76% of film distribution revenue and 79.3% of total sales of recordings. Left unchecked this trend can compromise the pursuit of common national objectives for a national media, including domestic ownership and control, availability and access to "non-commoditised communication" and the nation-building goal of reflecting a country to itself.

Canada's Cultural Presence

Although Canada's cultural identity is overshadowed to a very large extent by the commanding presence of the American entertainment industry, it has not been obliterated.

In his paper, John Ralston Saul describes a brief sojourn in France and Britain and the image of Canada he found in these countries from their media. He finds references in the media to Glenn Gould and Leonard Cohen, reviews of Canadian literature in both French and English-language papers and praise for a theatrical production staged by Robert Lepage at a festival in Edinburgh. The bookstores in both London and Paris have Canadian works on their front tables and Canadian films and theatre productions are enjoying success in both countries, in both languages.

What he does not find are references to Canadian business or politics, our involvement in current international crises – regardless of the prominence of our role – even an

impending election in Quebec. Canada, in a political or economic sense, is absent. In a cultural sense, it is very present. Saul concludes that "Canada's profile abroad is, for the most part, its culture. That is our image."

Cultural Trade

While Saul presents a somewhat optimistic view of Canada's cultural presence overseas, there is no denying that Canada has enjoyed some success in the promotion of its cultural exports. Exports of cultural goods and services grew rapidly between 1990 and 1995, as did expenditures by foreign tourists in Canada.

- Overall exports of Canadian cultural goods and services grew by 83% between 1990 and 1995 to almost \$3 billion.
- In 1995, Canada received 4 million visitors from overseas, up 15% from 1994, and 13 million overnight visitors from the United States, up 4%. This meant a total of \$11 billion in tourism receipts.

These exports have significant economic impacts for Canada:

- Of the \$29.6 billion contributed by the cultural sector to the Canadian GDP in 1993-94, exports accounted for almost 8% (or \$2.1 billion).
- Of the 894,000 jobs in the cultural sector in 1993-94, about 50,000 are associated with export activity.
- Over the past decade, the labour force in the cultural sector has grown by 122%, double the rate of growth of the overall labour market in Canada.
- Imports account for about 60% of the culture GDP (or \$16.4 billion) and about 40% (or 340,000) of the jobs in this sector.

Indeed, Canada has many strengths on which it can build. It has developed export strengths in niche markets such as children's books and music, television programs, animated film, aboriginal art and pop music. Canada's bilingual heritage offers our cultural industry a window onto both the English- and the French-speaking world – two of the most important markets for much of the world's cultural production. Moreover, through the Canada Council, Canada has developed first-class translation services that allow for linguistic cross-over in works produced within this country and sold abroad.

Canada's Image

Finally, there is the issue of how others see us, and here Canada is very well-placed to sell itself to the world. Our consistently high ranking in the UNDP's Human Development Report – number 1 for four of the last five years – encourages others to see this country as a modern-day "paradise". Canada is also seen by many other countries as a land that is "clean" in a world that is getting "dirtier". This makes the "Canada" mark a significant selling point, whether it is on a label of Canada Dry or a slab of pork. Finally, Canada has developed a reputation as an "honest" country – one that helps to make the rules and play by them. The power of this reputation and image in creating greater receptiveness to Canada in foreign markets abroad should not be underestimated.

Canadian Values

Values are being internationalized. The 1948 Declaration on Human Rights – drafted by a Canadian – is now only one of a large number of international agreements, conventions and statutes that touch on areas related to culture and values. These international instruments represent an emerging set of core international values – values that will play an increasing role in shaping world opinion, governing the conduct of national governments and empowering individual citizens.

For Canada, this is generally to the good. Canada has played a disproportionate role in shaping some of the most basic international agreements that touch on issues related to culture and values. And Canadians have, in general, preferred a role for their country that is based on values, rather than interests.

Canadian and Global Values

The emerging shape of global values is very much in keeping with the values Canadians espouse. In 1991, the Government of Canada published a paper on *Shared Values: The Canadian Identity*, summarizing the results of the Citizens' Forum on Canada's Future. It identified as shared values: freedom, democracy, the rule of law, federalism, a sense of justice, caring, compassion for others, responsibility to the greater community and to other individuals, equality, community rights, individual rights, diversity, inclusiveness and a supportive society.

These values are in accord with two recent attempts to identify key global values:

- In preparation for the World Summit for Social Development, the United Nations Research Institute for Social Development reported that international values could be built around three central themes: equality in individual and human rights; free and universal political participation; and state responsibility to promote adequate standards of social welfare.
- The 1995 report of the Commission on Global Governance, *Our Global Neighbourhood*, identified similar values: respect for life, liberty, justice and equity, mutual respect, caring and integrity.

Accepting the authority of international instruments means that we must live with the results. Given that wide differences in values continue in the world, this argues for a strong role in framing international agreements on issues related to culture and values, and being enlightened enough as a people to understand the benefits of doing so generally, when, in specific circumstances, we may feel we lose by their application. It means as well accepting that we will be held to account for our own shortcomings – for example, for our treatment of aboriginal peoples, particularly if the UN Declaration on Indigenous Rights is adopted before the end of the International Indigenous Decade in 2004.

Immigration and Cultural Diversity

Canada is one of the world's main acceptors of immigrants, receiving proportionately more immigrants per capita than most other countries – some 200,000 in 1995, up from 85,000 in 1985.

The main source of these immigrants has shifted from Europe to Asia. During the 1950s, 80% of all immigrants arriving in Canada were from Europe; Asian immigrants never exceeded 5%. By 1994, just 17% of immigrants were from Europe, while 57% were from Asia.

Over 75% of these newcomers immigrants settle in major urban centres, particularly Toronto, Montreal and Vancouver. Within these cities, newcomers tend to migrate to neighbourhoods with a concentration of other immigrants from their country of origin. The ethnic and cultural make-up of neighbourhoods and the wider community is changing as a result, and this has a significant impact on all Canadians within these communities.

Immigrants bring many positive returns for Canada. They enrich the cultural mosaic, create jobs, provide investment and skilled labour and, for the most part, become productive and committed members of Canadian society. They represent as well a potent force for Canada's influence in the world. They provide Canada with direct links with a wider range of countries, some of which are becoming more important players in world affairs and the global economy, and offer Canada an improved cultural understanding of countries in virtually all parts of the world.

Needless to say, not all Canadians view immigration in this way. Increased immigration and the change in the ethnic background of immigrants are giving rise to feelings of cultural insecurity and intolerance, and this is seen by some as a threat to social cohesion.

Challenges And Opportunities

Projecting Canadian Culture Internationally

Asserting our Culture at Home

Rapid technological change will increase the predominance of American entertainment industries in the Canadian market. Controlling and regulating ever-larger volumes of information and cultural product will become progressively more difficult – for example, extension of copyright regimes in a digital environment is difficult and, in the case of the Internet, virtually impossible.

The ability of Canada to regulate cultural activities will be reduced given the prevailing winds of economic liberalization. In the cultural field, traditional national mechanisms for maintaining and regulating domestic cultural content while providing for consumer choice are being challenged, particularly by the United States. This is particularly significant for Canada given the high levels of foreign penetration of many of our cultural industries. Culture and communications will remain one of the sectors most prone to bilateral disputes and the lingering impression of a culture under threat will colour Canadian perceptions of the benefits of globalization.

The ability of Canada to put up barriers against foreign cultural products will also be limited by Canadians themselves. Canadians will expect a balance to be struck between promotion of Canadian culture and free access to information and entertainment from other sources.

The economies of scale enjoyed by foreign-based producers will continue to put pressure on the Canadian cultural sector. As long as it is cheaper to import and distribute foreign-produced cultural goods and services in Canada, there is little incentive for companies (particularly transnational companies) to produce or market Canadian ones.

Given the dominance of the American entertainment industry, and the weakness of Canada's industry, revenues, jobs and human capital will continue to flow south. Canadian artists have traditionally had to migrate south of the border in order to "make it" in the American market. They are now being joined by Canadians with technical skills in new media production—skills that in most cases were developed in Canadian educational institutions such as Sheridan College or the Université du Québec à Montréal.

Promoting our Culture Abroad

While a number of Canadian artists have enjoyed international success, they are not always seen or known as Canadians. In this sense, they do not necessarily contribute to strengthening Canada's presence overseas.

Statistics Canada has estimated that spending in 1993-94 on international cultural relations by the federal, provincial and municipal governments amounted to about \$130 million or about 2.1% of public spending on culture. This is very low compared to other industrialized countries. For example, France spends 6 times as much on a per capita basis.

In view of the changing marketplace for cultural products and services and tourism and the fact that culture is considered the "third pillar" of Canada's foreign policy, federal government departments may need to revisit current goals and priorities for cultural programs, directing more attention to external promotion than to internal development measures.

The machinery of government involved in cultural policy is divided within the federal government and among federal and provincial jurisdictions. This has been pointed to by some as a shortcoming and obstacle to more vigorous cultural policies overseas.

Developing New Markets

Collectively, trade with Japan, South Korea, China, Taiwan, and other Asia-Pacific economies now constitutes almost twice the volume of trade with European countries.

Five of ten sources of immigrants of Canada in the last decade were from the Asia Pacific region, as were the majority of Canada's business immigrants, and the Chinese language is now the third most common mother tongue in Canada. Over the next ten years, the Asia-Pacific region is likely to increase in importance as a market for Canadian cultural goods, services and tourism due to the economic strength of many countries in this region and changing Canadian demographics. This is also likely to influence both the language and cultural orientation of domestic cultural production and tourism marketing.

Most cultural sectors in the United States hold no more financial promise than many European markets. There are a number of reasons for this. In per capita terms, the United States "consumes" far less culture than do most European countries – for example, in the world of books. The United States also produces enough of its own to have less need of foreign culture. Moreover, as an imperial power, with isolationist and nationalistic tendencies, Americans appear to have little interest in foreign culture. This represents an "invisible barrier" to trade in cultural products. Smaller markets, on the other hand, such as those in Europe tend to be more receptive to and interested in the cultures of other countries. This suggest Canada may have a better chance of exporting its culture to these countries than to the United States.

Tourism

Canada has valued natural resources which will continue to attract tourists, providing these resources and heritage sites are managed in a sustainable fashion. Tourists have the potential to enrich Canada both culturally and economically, as well as to project Canadian identity and values abroad upon their return to home countries. It should be noted that an increasing number of tourists are coming to Canada for cultural events as well.

New Information Technologies

The new information communications technologies will change the way people interact, understand, consume, and produce cultural products and services. These new technologies are interactive, rather than passive and one way, and provide each consumer with the opportunity to also act as a producer who can define and share a unique cultural product. On a larger scale, the Internet and CD-ROM may make it easier for smaller countries and smaller organizations to distribute (read: download) cultural products at low cost and with unlimited reach. New technology such as satellites and the spread of cable may actually open up the international market for Canadian television production. This increased flexibility in the production and distribution of cultural content creates the potential to:

- reduce the cost of preserving diversity (cultural and linguistic);
- reduce the push towards cultural standardization;
- develop new programs of cultural development;
- reinforce local cultures and build bridges; and
- increase accessibility of and reduce the strain on natural and built heritage through virtual tourism.

New Alliances

A number of countries – in Europe, Africa and Asia – are concerned about the domination of culture and entertainment by the United States and have sought protection for domestic cultural industries, both within international agreements and through domestic measures as well (both positive and negative). Canada can build alliances with like-minded countries on cultural issues and pursue its interests with them in international negotiations.

Making the Most of our Assets

Language: Canada is host to two of the most influential languages in the world – possibly the most influential in the world of culture. This provides us with access to a wider world and offers us a natural entry into many overseas markets.

Image: Canada has a good international reputation and is seen as a clean, livable country. This makes it an attractive place to much of the world's population and increases the receptivity of other peoples to our cultural products.

American linkages: The familiarity of Canadians with American society offers us comparative advantage in tailoring our cultural products for American audiences (our main market for cultural exports). Moreover, the similarity between our cultural productions – in both languages – and American cultural productions can be an advantage. International audiences clearly like “American” content and, outside of the United States, no country is better placed to offer something similar (but different) than Canada.

Foreign Students: Tens of thousands of foreign students study in Canada each year. Typically, these students are part of an elite back home and often go on to assume influential positions in their home countries. Many of them would welcome the opportunity to retain ties with the country of their education and some could serve as informal ambassadors for Canada abroad. Likewise, academic exchanges offer Canadians the opportunity to learn about other cultures and values. In doing so, they help us to develop a better sense of ourselves, while helping others learn about Canada as well.

Reflecting Canadian Values Internationally

Canada faces a number of problems in seeking to maintain its influence abroad on matters related to values. It is becoming a relatively smaller power and may be forced to take a less prominent part in international fora. At the same time, budget reductions are further limiting the role Canada can play internationally and may force our withdrawal from key international institutions that are involved in issues related to culture and values.

Meanwhile, declining cohesion at home will not translate into vigorous action abroad. A country that is not sure of its identity or values, that cannot agree on national symbols and lacks faith in its main institutions, will not be able to pursue coordinated and coherent strategies in world affairs. Federal-provincial concerns will necessarily limit Canada's involvement in many international initiatives that deal with cultural and ethical issues.

On the positive side, Canada has a long tradition of mediation in international affairs and is trusted as an honest broker. This reputation, if shored up by continued constructive and active participation in worthy international ventures (e.g., peacekeeping and development co-operation), will allow us to exercise influence disproportionate to our weight in world affairs.

Moreover, Canadian values are, to a very large extent, congruent with emerging international values. This means that our expertise in these areas (e.g., in framing human rights legislation and promoting gender equity) and the institutions we have developed at home to support democratic life are highly desired “commodities” for countries seeking to build more pluralistic forms of governance.

Canada has developed considerable expertise in gender analysis, particularly through its aid program. Much of this work has involved issues related to values; it can be applied in other areas of Canadian foreign policy and provided to other countries.

This continuing international experience also has important positive implications for domestic policy, helping to broaden and inform our understanding of Canadian issues involving values.

Canada's Cultural Diversity and our International Relations

The major challenge posed by Canada's immigration policies is that changing demographics could contribute to racial tensions, particularly in larger cities. Such intolerance, and the increasing incidence of hate crimes and hate propaganda, may

undermine Canada's image as a tolerant and inclusive society while also weakening its social cohesion.

One aspect of this loss of cohesion is that Canadian symbols and institutions are of diminishing appeal or relevance to a changing population. New symbols and institutions that can bind Canadians together need to be found.

Immigrants make positive socio-economic contributions to Canadian society in general and to the economy in particular. Australia has pursued a "Productive Diversity Strategy" which seeks to make strategic use of business networking opportunities, linguistic skills, cultural understanding and market knowledge of its migrant and ethnic communities. Canada could explore similar strategies.

Thus the increasing heterogeneity of our population offers not only a major challenge but an opportunity. If we manage it well, we can present the world with a working example of harmony in diversity, confirming our assertion that we are a decent, humane country, perhaps the best place of all to live.

Conclusion

Changes in the international context – such as the concept of "soft power" – together with limits on Canada's ability to play some of its traditional roles on the international stage, place new emphasis on culture and values as aspects of our foreign policy. At the same time, how we are perceived internationally can help to shape our image of ourselves, thus potentially contributing to much-needed social cohesion at home.

Moreover, our ability to project our culture and values internationally can have direct and practical implications for our ability to promote such Canadian interests as cultural exports and tourism. Viewed as an industry, this is one of our most rapidly growing and profitable trade sectors.

Values and Culture – Research Agenda

Cultural Identity

1. Research to aid in developing cultural promotion strategies:
 - developing an inventory of government programs and policies of relevance to the promotion of Canadian culture overseas;
 - developing an inventory of Canadian cultural resources, including cultural industries within Canada and cultural festivals;
 - collecting data on trends in cultural consumption by non-Canadians (in Canada and overseas), in part to assist in the development of international marketing campaigns;
 - developing an inventory of relevant cultural festivals and trade fairs abroad that provide a strong venue for the promotion of Canada's cultural industries;
 - identifying potential strategic alliances and international co-production agreements to promote domestic cultural industries; and
 - identifying opportunities for cultural exchanges between individual creators and between cultural organizations.
2. Comparative research on cultural policies abroad:
 - positive measures undertaken by other countries to promote culture, domestically and abroad; and
 - restrictive measures adopted by other countries to promote domestic production and curb foreign domination.
3. Additional areas for research on Canadian culture:
 - the role of new information technologies and media (e.g., CD-ROM) in culture and distribution of cultural products;
 - the interaction between new technologies and the production and preservation of Canadian cultural heritage;
 - development of an inventory of foreign students and alumni societies, as well as means to maintain contact with them;
 - the impact of budget cuts on the projection of Canadian culture (for example, Radio-Canada International);
 - opinion surveys to determine the nature of Canada's image abroad;
 - the role of cultural expression and exchange (the arts, sport, the natural and built heritage, domestic travel) in promoting social cohesion in Canada.

Canadian Values

1. Research into Canadian values to identify:
 - levels of global awareness among Canadians;
 - the nature of Canadian interest in international affairs; and
 - Canadian opinion on foreign policy priorities and values.
2. Opinion research to develop a better sense of Canada's image abroad, with an emphasis on foreign perceptions of Canadian values.
3. Research to identify:

- communications strategies for building global awareness in Canada; and
- Canadian resources of relevance to shaping global values (e.g., expertise in human rights, governance and gender equity).

Immigration and Cultural Diversity

1. Research to explore:

- the potential of newer cultural communities to contribute to foreign relations and economy;
- the development of strategies to involve these communities in public life and Canada's relations with other countries; and
- the impact of cultural diversity on Canada's social cohesion, culture and values.

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13. Environmental Sustainability

The Issue

The vulnerability of Canadians to global environmental change will increase over the coming decade. These pressures will be driven by future global population growth, the continued industrialization of the developing world and by the rising levels of production and consumption implied. Changes *will* occur, and they will be significant and long lasting. Global environmental pressures of greatest significance to Canada include:

- climate change
- ozone depletion,
- loss of biodiversity, and
- the long range transport of such hazardous air pollutants as persistent organic pollutants.

The key to addressing these environmental challenges lies in understanding their central characteristics:

- ☐ Environmental threats do not respect national boundaries, but instead are often trans-boundary or global in their effects.
- ☐ The various environmental threats are dynamically linked, in both their causes and their effects.

Canada has a role to play on the international stage as a policy maker. Canada must ensure its interests are protected as international policy responses are developed and Canada must also be positioned to capture markets emerging as a result of these environmental threats. New policy research is needed to define methods which effectively promote the reconciliation of disparate interests and facilitate the implementation of effective international agreements.

Trends and Developments

Global Trends:

Two broad trends continue to drive global environmental change phenomena:

- ☐ population growth and urbanization
 - ☐ industrialization and the impact of technology, with attendant rising expectations, plus growth in production and consumption.
-

"The technologies of the 1980's could probably raise a world population of 1 billion to the West's current living standards without disastrous environmental consequences. They could not, however, do it for a population of 10-12 billion. Although some people dissent, most believe that pollution, environmental degradation, and exhaustion of key resources would be widespread if 10 billion people were raised to US and Western European living standards using technologies completely frozen in their 1980's form."

R. Lipsey, C.D. Howe Institute Benefactors Lecture, 1996

Population

Population growth is a critical variable in the environmental impact equation as it underlies the patterns of demand for food, energy, water materials and environmental goods and services. Though fertility rates are declining and in many parts of the world declining more dramatically than anticipated even a few years ago, the global population continues to grow rapidly. In 1995 88 million people were added to the global population (UN, 1994). Over the course of the next decade approximately 800 million people will be added to the global population, a number equivalent to the population of Africa. This will bring the global population to 6.7 billion people (UN, 1994).

Global populations are also concentrating in cities. Within the next decade more than half the world's population, an estimated 3.3 billion, will be living in urban areas (UN, 1994). Roughly 150,000 people are added to the urban population of developing countries everyday. Air pollution is already contributing to the significant rise in respiratory illnesses around the developing world and water and transportation infrastructure is under considerable stress. The urban transition in the western world was accompanied by initially deteriorating and then gradually improving levels of air and water quality. Whether and under what terms the developing nations will be able to make this transition remains an open question. What is unprecedented, however, is the absolute scale of the change.

Industrialization

The effect of industrialization is to magnify the resources consumed and the wastes produced by a growing population. The result is that demand for water, food, energy and materials for shelter and infrastructure are growing and will continue to grow faster than the rate of population growth. For example, since 1950 global grain consumption has tripled, water use has tripled, and fish catch has increased five fold. The central challenge posed by industrialization is to expand wealth and meet growing demands at lower levels of damage to the productive base and to human health.

Water

Water use is forecast by the FAO to increase at a rate of 10-20% per decade, driven primarily by industrial and agricultural demand. Consequently, within ten years we will be well advanced towards significant water shortages in many regions around the world. By 2025, 40% of the world population will be living in countries experiencing chronic water shortages or water stress. The direct effects of these scarcities will likely be localized and it is unclear whether water scarcities will contribute to interstate conflict. In this event, however, Canada could experience a number of indirect economic effects, such as demands for official development assistance, peacekeeping, and immigration.

Energy

Global energy consumption is forecast to increase significantly over the course of the next decade. By 2010, the quantity of fossil fuel use burned per year is likely to be about 35% beyond present levels (IEA, 1995). As a direct consequence, energy-related carbon dioxide emissions are expected to rise between 30 and 40 percent by 2010 under even moderate growth conditions. The bulk of that increased consumption is expected to be derived from the increase in industrial activities in the developing world. According to Japanese government forecasts, manufacturing output in Asia alone is projected to increase anywhere from 3 to 8 fold and the number of automobiles may increase from 91 to 522 million by 2025.

Success in limiting the effects of energy consumption on the global (and urban) environment depends on either (a) increasing the efficiency with which energy is used or (b) shifting from "heavy" to "light" fuels or energy sources. Both these transitions have occurred to some extent in the developed world. Efficiency improvements throughout the OECD have been in the order of magnitude of 2% per year (OECD, 1994). To date, however, activity levels have increased at a faster rate than efficiency has improved, with the net result that energy use has increased. Domestic emissions of carbon dioxide are forecast to rise over the course of the next decade in spite of efficiency improvements. The potential scale of developing world demand, therefore makes it imperative that these states experience a more rapid and extensive transition.

Food

Food production will have to nearly double in order to meet the demands of world population growth and modest income growth over the course of the next 30 years. Whether this needed increase in the volume of food production from land and sea entails a significant loss in biodiversity, soil or water quality depends on the manner in which production increases occur.

In the case of agriculture, current forecasts are that increased production will be achieved through a combination of greater land use and by increasing the productivity of existing land (FAO, 1995). Increasing land use will exert pressure on forests and wildlife habitat. Increased productivity, to the extent that it is derived from increased inputs such as water, pesticide, fertilizer or fossil fuel use will also have a significant set of environmental impacts. Productivity gains derived from improved seeds, improved management practices or the development of appropriate institutional arrangements such as property rights are therefore needed not only from the point of view of sustaining the environmental base on which a secure food supply depends, but also in terms of limiting the volume of pesticides transported long distances into the Canadian environment, and reducing the rates of loss of biodiversity.

In the case of fisheries, the FAO (1995b) estimates that 80% of the world's commercial fisheries are under significant pressure from over-fishing. The FAO also predicts a substantial shortfall of the supply of fish and fishery products to meet demand over the next ten to fifteen years. The ability of the sector to contribute to global food security and the reciprocal need to limit environmental damage depend on a number of steps laid out by the Kyoto declaration. These steps include addressing such issues as fishing gear technology and, in particular, by catch or discard levels, improving storage and distribution technologies. The ability of aquaculture to substitute for open seas fisheries remains unclear but will certainly depend on the establishment of appropriate institutional and legal frameworks. In the cases of both fisheries and agriculture, the central need is for increasing production at lower levels of damage to the productive base and human health.

Global and Domestic Impacts

These trends suggest four environmental stresses which can be forecast to grow in importance to Canada over the next decade:

- ☐ climate change
- ☐ ozone depletion
- ☐ loss of biodiversity
- ☐ air and water pollution

This list is not comprehensive, but represents the stresses which are most likely to affect Canada most directly over the ten year time frame of this study.

Climate Change

Climate change represents a significant threat to the global and the Canadian environment and economy. Canada both affects and is affected by climate change. We contribute 2% of global greenhouse gas (GHG) emissions and will bear a disproportionate brunt of its effects.

According to the IPCC's latest scientific assessment surface temperatures are projected to increase 2 degrees C over the course of the next century under moderate projected increases in population and economic activity. These temperature changes are significant considering that the difference in average global temperatures between today and the last ice age is approximately 4 degrees C.

However, the greatest impacts of climate change are likely to be caused by increased frequency and/or intensity of extreme events, rather than gradual changes in temperature. That is, some of the greatest will come as "surprises". Weather-related disasters have already contributed to a rise in re-insurance industry claims from \$16-17 billion US in the 1980's to \$43 billion between 1990 and 1994. Over the course of the next decade Canada is likely to experience an increase in extreme weather events. Climatic changes will also affect the marine environment. For example, cooling in the northwestern Atlantic has, along with other factors such as over-fishing pressures and predators, depressed the production of Atlantic fish stocks including Northern Cod.

The years to 2005 will likely see increased focus both domestically and internationally on an appropriate response to climate change. Energy production and use are critical components of Canada's economy. Any intervention which significantly alters the absolute and relative share of fossil fuels in the energy mix will create winners and losers on a national, regional and sectoral basis. The challenge facing Canada is to determine the trade-offs it is prepared to make in responding to the threat of climate change while at the same time seizing opportunities to restructure its energy industries and economy to position itself for continued long term prosperity.

Regardless of what steps are taken now to stabilize or reduce global greenhouse gas emissions, the concentrations of GHGs in the atmosphere will take centuries to dissipate. Given the time it takes to introduce new technologies and effect large changes in energy systems and infrastructure there will be a need to develop adaptation strategies to cope with whatever climate change is already underway.

Ozone Depletion

Ozone depletion has been demonstrated as having caused an increase in the ultra-violet (UV) radiation over much of the world, including Canada (WMO, 1994). Further, these reports warn that the increase in UV-B radiation resulting from ozone depletion is likely to

have serious adverse impacts on human health, biodiversity, and material, agricultural, forestry and fisheries production.

While meteorological variation causes some year to year variability, Environment Canada reviews show that for the first six months of 1995 total stratospheric levels were 9.5% below normal in Canada. By the end of the century, it is predicted that mid latitude ozone losses in winter/spring will be 12-13%. (McMichael et al, WHO/UNEP/WHO, 1996)

Health risks are significant. Increased UV exposure has been linked to some forms of skin cancer, suppression of the immune system and cataracts. The US EPA estimates that for every 1% decrease in the ozone layer, melanoma mortality increases by 1-2%. In Canada, the incidence of skin cancer has increased three fold since the 1970's.

Scientific evidence also continues to indicate that terrestrial, aquatic and wetland ecosystems are suffering impacts under present levels of incidental UV-B and that there is a high risk of severe effects on Canadian ecosystems, which will be widespread, long lasting and difficult to reverse.

Since the Montreal Protocol was signed a decade ago in 1987 we have made significant progress in phasing out the production of CFCs in the developed world.

Even if all governments comply with the Montreal protocol, however, past emissions will continue to cause ozone degradation for decades to come and the full recovery of the ozone layer is not expected until 2100. Other ozone depleting substances remain to be controlled, and mechanisms will be needed to assist developing nations in their control efforts.

Biodiversity

Extinction is a natural process but scientists estimate that extinction is now occurring at a rate close to 5000 times the natural rate. At this rate 25% of the species alive today will be gone within the next 30 years.

This loss of biodiversity has important implications for Canada. Firstly Canadian biodiversity is affected by foreign activities. Migratory species are affected by habitat destruction in the circumpolar region and throughout the Americas. For example, the Porcupine caribou herd's calving grounds are located in the potentially oil rich Alaskan Wildlife Refuge and would therefore be vulnerable to exploration activity. A second case in point is the Swainson's Hawk, 20,000 of which died last year as a result of the application of pesticides in Argentina. Close to 80% of Canada's birds are migratory and thus vulnerable to foreign pressures. Also, internationally precipitated changes such as climate change and ozone depletion, destroy the quality of wildlife habitat in Canada. Polar bears in the Canadian north are accumulating radioactive, heavy metal and organochlorine contaminants in their blood. The effect of ozone depletion on aquatic food webs is a subject of ongoing study.

Secondly, Canada is affected by the loss of biodiversity in other countries to the extent that this destabilizes global ecosystems. The narrowing of the genetic pool of crops, for example, may increase the vulnerability of the global food supply system to changes in climatic conditions or pests and disease. Loss of biodiversity diminishes the ability of ecosystems to respond to stresses from, for example, climate change and ozone depletion. From a human development perspective, the conservation of biodiversity is a key to surviving the pressures that will come with increased population, economic growth and affluence. It is especially critical in such areas as pharmaceutical and biotechnological development in providing us with new sources of food, drugs and industrial products. The most significant threat to this erosion of genetic and species diversity is loss of habitat. Deforestation and coastal zone development represent significant threats to biodiversity in many parts of the globe.

Air and Water Pollution

Canada affects and is affected by the global circulation of toxic substances which pollute air and water. We receive, however, much more than we give.

Hazardous air pollutants, including persistent organic pollutants such as PCBs, DDT and Toxaphene, and heavy metals such as mercury are transported long distances by air into the Canadian environment. Significant sources of pollution include coal fired electricity generation in the USA which sends mercury and sulphur dioxide into Canada and pesticide use in Asia and Latin America where chemicals like DDT are still used for public health and agricultural purposes.

These substances tend to accumulate in the food chain and may represent a significant threat to the Arctic ecosystem and to human health. The inhabitants of Canada's north, largely aboriginal peoples, are already being affected. A 1987 study found that within a population of Inuit relying on "country foods" 63% of children and 39% of women of childbearing age exceeded Health Canada's acceptable levels of PCBs in their blood (SOE, 1991)

To date, adverse effects associated with chemical contamination have been documented in about 30 species of fish and wildlife in the Great Lakes region. These include population declines, reproductive and developmental effects and cancers. Many of the adverse effects of chemical contamination are now being attributed to the ability of many persistent bioaccumulative contaminants to mimic the hormone estrogen which controls growth and development in humans as well as wildlife. There is growing evidence of adverse human health effects and the issues related to chemical contamination should be expected to gain significance over the next decade.

Emissions of air pollutants like sulphur dioxide and nitrogen oxide originating from the United States contribute to over half of the smog experienced in Canada and to a significant portion of the acid rain. Trans-boundary flows of pollution are significant contributors to smog episodes experienced in the Windsor-Quebec City corridor, in southern New Brunswick and in southwestern Nova Scotia. These contaminants have significant health effects. Health Canada data show there is a direct link between smog levels and hospital admissions with no apparent "safe" threshold. At the same time, Canadian emissions affect northern and northeastern USA.

Opportunities and Challenges

The pressures identified above and the specific environmental issues to which they will give rise over the course of the next decade suggest five areas of opportunity and challenge for Canada over the course of the next decade.

- ☐ enhancing the effectiveness of international processes
- ☐ engaging developing countries.
- ☐ encouraging innovation by the private sector.
- ☐ benefiting from opportunities in emerging markets
- ☐ maintaining Canadian influence on environmental issues

Enhancing International Processes

Challenges and Opportunities

The structures of international environmental governance have failed to keep pace with the evolution of global problems. The scale of these problems is indicated by the volume of international environmental diplomacy. Roughly 60 international treaties and other agreements in the area of the environment were adopted between 1985 and 1994 (*UNEP Register*), including most of the major environmental conventions. This rapid pace is expected to continue as issues like heavy metals, persistent organic pollutants, forestry and desertification come under international scrutiny.

There are a number of concerns, however, related to the effectiveness of the current approaches.

One is that environmental conventions are not as effective as they should be. Notably, compliance and dispute settlement mechanisms are relatively weak (of particular concern is non-compliance with the Montreal Protocol). Another concern is the proliferation of separate issue-specific international agreements, leading to organizational inefficiencies, as well as to a potential lack of coordination.

International environmental institutions have also failed to keep up with international economic institutions, and with developments such as global free trade and globalization in general. While progress has been made in addressing specific environmental issues, there is increasing interest in the question of international environmental standards which would respond to the governance challenges posed by international trade rules as well as competitiveness pressures. The creation of a single multilateral body on international environmental and sustainable development issues – a Global Environmental Organization (Daniel Esty, 1994) – could potentially provide an umbrella for a range of such activities and could facilitate access to markets for Canadian firms.

There is also a need for greater coordination between international environmental and economic institutions (see report of the WTO Committee on Trade and Environment to Singapore Ministerial).

The expected increased pace of international negotiations brings with it challenges at the domestic level, particularly in terms of developing consensus for action among key stakeholders such as government departments, industry and environmental organizations, and the provinces. Relations with the provinces may pose a particular challenge, in that it is frequently they who are called upon to implement international environmental agreements. Provincial involvement is expected to increase as international environmental agreements move increasingly into areas of provincial jurisdiction (e.g. resource management).

International institutions will continue to play a critical role in addressing global common problems and their effectiveness will depend on achieving greater coherence and coordination in the institutional framework. At the same time Canada's influence over the structure of international institutions is small. Strategically Canada must identify places where it can exert some influence over the evolution of these bodies.

Strategic Issues and Research Agenda

A Canadian strategy of contributing to the enhancement of the international environmental protection processes would be supported by a research agenda focused on:

- a) Ways to integrate economic and social considerations,*
- b) Ways to strengthen compliance and dispute settlement mechanisms.*

Engaging Developing Countries

Challenges and Opportunities

With the emerging importance of Asia as a driver of environmental change, mechanisms to ensure the engagement of developing states will be central to the long run resolution of these environmental risks. Scenarios suggest that by 2010 the developing world will account for nearly half of carbon dioxide emissions, compared to one third today (World Resources Institute, 1996).

One challenge is to make a convincing case for environmental investments.

Developing countries argue that they are being urged to do too many things too fast and that global initiatives do not reflect their public health and environmental priorities. For many developing countries local issues such as waste disposal and urban air and water quality are more pressing and likely to gain greater environmental priority than problems of a global commons nature which by definition are more diffuse and more distant in impact. The risk posed by microbiological disease, makes even the cumulative risk posed by chemical contaminants seem trivial. DDT is still used extensively in Asia and Africa because it yields real and immediate benefits in the form of agricultural productivity and malaria control.

The second challenge lies in attracting the capital needed to finance these investments. Under the terms of the Montreal Protocol a funding mechanism (the Multi Lateral Fund) was established to finance developing world investments in the phase out of production and use of ozone depleting substances. In considering proposals for action on global environmental problems, many developing nations will point out that developed countries have not lived up to the Rio bargain regarding foreign aid budgets and technology transfer. Public funding will remain important but so will experiments in emission trading and other economic and information based approaches targeted at leveraging private sector capital into environmental investments.

An effective strategy to engage developing countries must be focused on addressing their environmental priorities in a manner which also contributes to resolving long standing global problems. Thus a focus on sustainable cities and urban air water quality and investments in supporting transportation, communications and water infrastructure will yield benefits, especially for the climate change agendas. Canada's role as a knowledge broker must be validated with resources, a global presence and a long term commitment to produce results. Once fully "plugged in", Canada can encourage the more efficient use of natural resources, raise awareness and education on sustainable development, increase the flow of investment and innovation and promote its competitive strengths through capacity building.

Strategic Issues and Research Agenda

Canada's strategic priorities over the coming decade will likely focus on the participation of major developing countries in important environmental problems that affect Canada. Among the key players will be China, India and states in transition such as Russia. This suggests a research focus on:

a) Mechanisms to enhance the role of private sector investment in developing countries, their role in facilitating technology transfer in the environmental field, and a greater role and more accountability for the private sector in international fora.

b) An evaluation of the effectiveness of the mix of policy instruments employed to date (e.g. development assistance, trade controls, multilateral funding mechanisms, industry certification and codes of practice etc.).

Encouraging Innovation by the Private Sector

Challenges and Opportunities

Current trends suggest the emergence of an innovation gap, a gap between the growth in environmental problems and the evolution of societal capacity to respond. The quality of the Canadian environment will depend increasingly on the ability of the developing world to adopt more efficient patterns of energy, water and material use as it industrializes. Much of the innovation required for this to be achieved will need to come from the private sector.

Projections undertaken by the United Nations suggest that if expanding demand is met through currently available technologies and institutional arrangements, then significant environmental damage will occur. However, it is not the levels of consumption per se which determine environmental impacts but the technologies by means of which the population relates to available resources. It will be necessary to look to the private sector for much of the innovation that will be required to minimize adverse impacts.

The challenge for governments in advanced nations, including Canada, is to create a climate in which the private sector can undertake the necessary innovation and ensure that it is applied in the developing world.

The only alternative to permanent poverty of the LDCs is continual economic growth through innovations that produce new products using new and less polluting technologies, which is the way charted by the Brundtland report for sustainable growth. Unfortunately too many commentators think only of today's commodities and today's technologies. They do not see the possibilities of raising living standards and dealing with pollution through technological advance."

R. Lipsey, CD Howe Institute Benefactors Institute

Further institutional, behavioural and technological innovations are essential. The information revolution, in particular, holds out the promise of achieving significant resource productivity gains over the coming decade. Information and ideas are widely considered to be replacing materials as the most significant determinant of national productivity and national competitiveness. The information revolution, in both its technological and social aspects holds out the promise of providing the means by which wealth can be generated in a less material intensive and less polluting manner. It will increase our capacity to monitor ecological change, and it will increase our capacity as societies to perceive, disseminate and respond to emerging environmental problems.

Canada has the ability to play a key role in this area, thereby benefiting not only the developing countries and the global environment, but also creating important opportunities for Canadian firms, as mentioned below.

Strategic Issues and Research Agenda

A key strategic issue for Canada relates to determining Canada's role in promoting the conditions which contribute to technical and social innovation domestically and internationally.

This would be supported by research into:

a) Developing a better understanding of the relative effectiveness of policy instruments capable of addressing the barriers to and determinants of innovation.

b) Improved understanding of the current trajectories of existing patterns of consumption and production and the related public policy challenges.

On the basis of this research a more effective set of strategies aimed at supporting the development and diffusion of relevant technologies could be designed.

Benefiting from Opportunities in Emerging Markets

Challenges and Opportunities

The potential scale of environmental problems globally means there will be a growing demand for environmental technologies and know how. ECOTEC forecasts a global market expanding from \$210 billion in 1992 to \$570 billion by 2010.

The rate of growth in spending on environmental technologies is critically dependent on policy frameworks and regulations, as well as on per capita income. High rates of economic growth have historically been associated with enhanced levels of investment in environmental technologies. In particular as countries cross the \$5,000 per capita income threshold the demand for environmental investments increase substantially (EcoAsia, 1996).

Air and Water Quality

In the markets of the developing world attention (and capital) will be targeted at the infrastructure investments needed to address the air and water quality, issues of concern in crowded cities. Canada is well positioned to capture a share of the water investments. Likewise, Canada's remote sensing and geographic information system technologies are positioned to capture a share of the demand for monitoring technologies.

Technology Transfer

The Conventions on Climate Change, Biodiversity and the Montreal Protocol on Ozone depleting substances recognize and encourage technology transfer as an important global response, particularly to developing countries and those with economies in transition. As commitments are made and implemented trade opportunities will emerge in technologies, products and services which increase energy efficiency, abate emissions, enhance adaptation to climate change or foster use of renewable energies.

At the same time, increased public concern about the environment, especially in advanced nations, has led to demands for the elimination of many products or the adoption of sustainable management practices. Many of Canada's resource-based exports are vulnerable to foreign perceptions of environmental unfriendliness, as recent protests about furs, lumber and power demonstrate.

Strategic Issues and Research Agenda

Strategically, Canada needs to understand how best to orient its trade strategies and private sector trade support mechanisms to maximize opportunities for Canadian business. At the same time it needs to understand the international commitments and mechanisms (e.g. economic instruments, tech transfer) which are most effective in creating a market for environmental solutions.

This suggests a need for further research into:

The role played by environmental regulations and standards in foreign markets in setting the broad framework for demand for environmental goods and services.

This research could form the basis of effective interventions in international protocols and conventions to create effective demand conditions for environmental technologies and services.

Maintaining Canada's Influence

Challenges and Opportunities

Maintaining Canada's influence over the negotiation of global accords, and over the behaviour of international partners will be central to both capturing emerging market opportunities and to ensuring steady progress is achieved in addressing domestic environmental priorities.

International Commitments

The central challenge to our ability to influence the global agenda lies in our inability live up to our own international commitments. Developing countries are unwilling to take on new responsibilities when some developed countries, like Canada, are unlikely to develop a record of living up to their obligations. This reflects the very critical basis of continued global influence on our ability to generate or define domestic consensus. One of the clear lessons from the recent climate change initiative is that insufficient public support will limit political commitment to change. Consensus involves developing positions in concert with others, such as provinces, and building a broader civic consensus on the nature of problems, the need for action, and the tradeoffs which are acceptable.

If Canada is not a policy maker it will, by default, be a policy taker, adapting to the consequences of the decisions made by others. The best strategy is therefore a proactive one in which Canada seeks to exert its influence to the extent possible into the international arena. A proactive strategy is required for environmental reasons (to ensure international outcomes meet our environmental needs) and for economic reasons (to ensure approaches taken internationally do not harm our economic and trade interests).

Opportunities will present themselves both regionally and globally in relation to a range of issues. Specifically Canada will actively engage in international negotiations on issues including desertification, climate change, deforestation, standards, oceans, biodiversity,

and toxic substances. In addition, such broader notions as sustainable consumption and production, and environmental security are likely to become the thematic focus of international discussions and represent areas where Canada can create opportunities by taking an advocacy position.

A Knowledge Broker

To wield influence disproportionate to its economic strength will require Canada to define a niche as a knowledge broker. The fulfilment of this role will depend on the continued credibility of its science and on its active engagement of the global community in research, educational and information sharing activities. For example, various countries are experimenting with different mechanisms for integrating environmental considerations into ongoing policy development processes. In particular Canadian requirements for departmental sustainable development strategies and for the systematic identification of barriers to environmentally sound practices could be pursued by all countries.

Strategic Issues and Research Agenda

The strategic issue for Canada consists of consistently and coherently defining the terms of its own engagement in international issues. This involves determining domestic tradeoffs, developing consensus and then playing the kind of leadership role Canadians expect. This also involves ensuring that Canada retains access to global negotiations, which depends, in part, on the broad structure of international governance. Science remains one of our key means of access

Defining where and how Canada can best influence global progress would be supported by research focused on:

a) Defining the key conditions of a knowledge broker role in environmental and sustainable development. An identification of global knowledge gaps would be a useful starting point.

B0 Identifying the skills and capacities needed to make and to shape environmental policies globally, the key access points, and the determinants of success.

Conclusions

The bottom line is that the nature and scale of environmental risks is changing. Canada is affected by international activities, and international activities will become an increasingly significant source of environmental risk over the coming decade. If the projected doubling of global economic activity over the next 15 years is based on the same technologies in use today, the number of environmental pressure points domestically will increase consistently over time. Current trends suggest the emergence of an innovation gap: a gap between the evolution of environmental problems and the evolution of technical and societal capacity to respond.

It is becoming increasingly apparent that to achieve our domestic objectives for environmental quality and sustainable development, effective action on the international stage will be critical, presenting both responsibilities and opportunities for Canada. The central challenge posed by population growth and industrialization is to expand wealth and meet growing demands at lower levels of damage to the productive base and to human health. This relies on the development and widespread diffusion of new, more efficient approaches to energy, water, food and material use. **For Canada the strategic**

challenge consists of the need for effective strategies to influence action on the global stage. If we don't maintain our influence we will become policy takers instead of policy makers or policy shapers. This making and shaping role is necessary for environmental reasons (to ensure international outcomes meet our environmental needs) and for economic reasons (to ensure approaches taken internationally do not harm our economic and trade interests).

Policy research is therefore needed to focus on areas which will strengthen our influence and enable Canada to seize emerging opportunities.

Environmental Sustainability – Key Issues

Enhancing the Effectiveness of International Processes.

Environmental problems have evolved much more rapidly than international institutions. The fragmentation of international bodies raises a problem for all nations, as does the weak relationship between international economic and environmental bodies. Strategically, Canada will have to consider what role it can play in strengthening these institutions.

Engaging Developing Countries.

The engagement of developing countries will be central to achieving long lasting progress on the most broad based and global of environmental issues. Though Canada will remain concerned with ozone depletion, climate change and biodiversity loss, developing countries will likely first focus on urban air and water quality issues. For Canada, the strategic issues involve making the case that environmental investments need to be made, and secondly determining mechanisms by which capital can be raised and directed to environmental problems.

Encouraging Innovation by the Private Sector.

Current trends suggest the emergence of an innovation gap, a gap between the evolution of environmental problems and the evolution of societal capacity to respond. Closing that gap will depend on technological and social innovations which lighten the burden of human activity on the environment. The private sector will need to drive much of the technical innovation needed. Strategically, Canada will have to consider what role it can play in encouraging markets to develop the needed solutions both domestically and internationally.

Benefiting from Opportunities in Emerging Markets.

As the developing world begins to make substantial investments in the environment, the market for environmental technologies is forecast to expand significantly. This market will also grow in the west as the regulatory climate and activity by businesses boost investments in environmentally friendly processes and products. This represents a great opportunity for well positioned Canadian firms.

Maintaining Canada's Influence.

Influence will be the key for Canada in engaging LDCs, capturing a share of the markets which emerge and in promoting the kind of innovation necessary to protect our interests. One of the greatest risks to Canada's influence on the global stage lies in the potential shortfall between our commitments and our actions. This speaks to the need to reconcile and determine acceptable trade-offs domestically, and then ensure that commitments once made are honoured.

Environmental Sustainability – Research Agenda

Enhancing the Effectiveness of International Processes.

- ☐ Means of integrating economic and social considerations.
- ☐ Means of strengthening compliance and dispute settlement mechanisms.

Engaging Developing Countries.

- ☐ Mechanisms to enhance the role of private sector investment in developing countries, their role in facilitating technology transfer in the environmental field, and a greater role and more accountability for the private sector in international fora.
- ☐ An evaluation of the effectiveness of the mix of policy instruments employed to date (e.g. development assistance, trade controls, multilateral funding mechanisms, industry certification and codes of practice etc.).

Encouraging Innovation by the Private Sector.

- ☐ Developing a better understanding of the relative effectiveness of policy instruments capable of addressing the barriers to and determinants of innovation.
- ☐ Improved understanding of the trajectories of existing patterns of consumption and production and the related public policy challenges.

Benefiting from Opportunities in Emerging Markets

- ☐ The role played by environmental regulations and standards in foreign markets in setting the broad framework for demand for environmental goods and services.

Maintaining Canada's Influence

- ☐ Defining the key conditions of a knowledge broker role in environmental and sustainable development. An identification of global knowledge gaps would be a useful starting point.
- ☐ Identifying the skills and capacities needed to make and to shape environmental policies globally, the key access points, and the determinants of success.

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14. Statistical Background

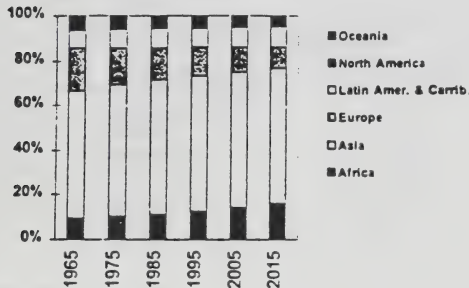
The Issue

This section provides a brief statistical portrait of Canada in relation to the rest of the world. It offers information on:

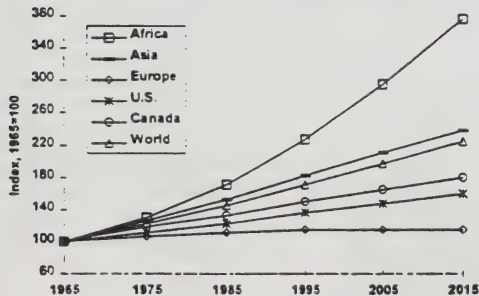
- ☐ Demographics;
- ☐ The economy and trade;
- ☐ Social factors such as crime, literacy and health;
- ☐ The environment.

While Canada's share of world population has been declining, its share of the population of the industrialized world has been increasing

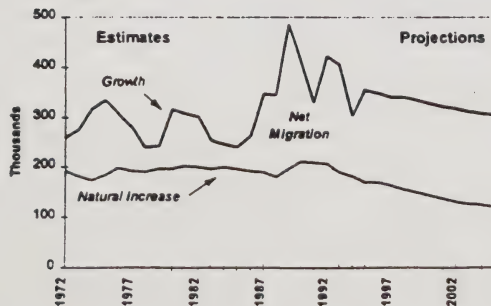
Continental Shares of World Population



Population Growth, Selected Regions

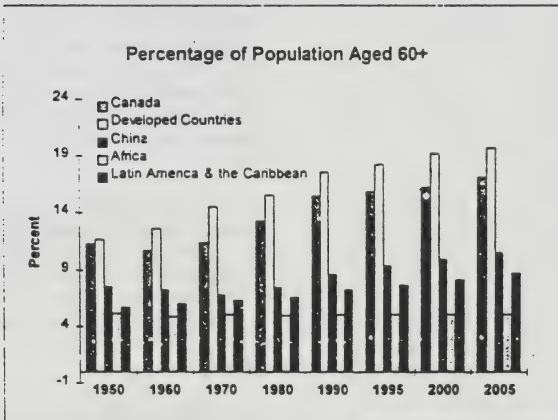
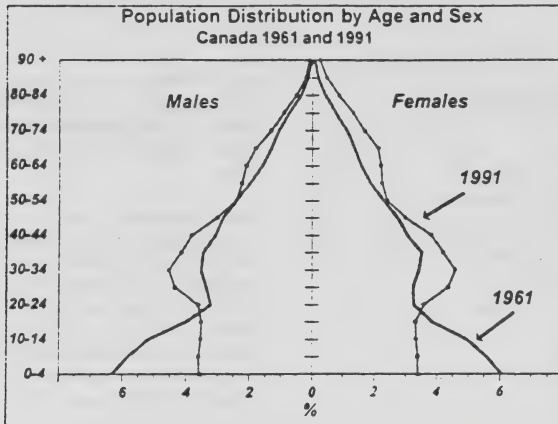


Components of Population Growth, Canada



- In 1994 Canada's population was 29.2 million, about 0.5% of the world population and slightly less than 3% of the population of the industrialized world.
- World population growth is increasingly driven by developing regions. Asia's share of the world population is projected to increase to 60.7% by the year 2005, and Africa's share will increase to 14.3%. The European and North American shares have been steadily declining since 1965.
- Africa's population continues to grow rapidly, having increased roughly 30% since 1965. It is the only world region where the current growth rate (2.8% per annum during 1990 to 1995) is higher than the average over the past 30 years.
- Among industrialized countries, Canada's population growth is one of the fastest. Canada's average annual growth rate for the 1970-1990 period was 1.3%, compared to 0.7% for developed countries as a whole, and 1.0% in the United States.
- Current and projected population increase for Canada is accounted for mainly by immigration. During the 1970s and early 1980s, natural increase accounted for 60-80% of total population growth. The subsequent rise in immigration reduced the share of natural increase to 50% between 1986 and 1995.
- If international migration remains at current levels, the contribution of natural increase to Canada's total population growth is expected to be less than 40% by the year 2005.

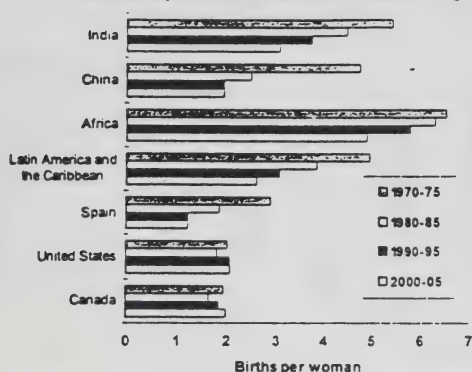
Like many other industrialized countries, Canada's population is aging



- The age distribution of Canada's population is characterized by proportionally large numbers in their 30s and 40s, the so-called baby boomers. The subsequent "baby bust" is evidenced by significantly fewer people below age 25.
- The proportion of Canada's population aged 65 and over rose from 8% in 1961 to 12% in 1991 and is expected to reach 14% by 2011. When the baby boom cohorts exceed age 65 (in the 2030s) the proportion of the population aged 65 or over is projected to exceed 20%.
- The aging of the Canadian population is due to low fertility, reducing the proportion of young people, and to declining mortality in advanced years, increasing the proportion of the population 65 and over.
- The proportion of the Canadian population above age 60 is lower than the average of all developed countries. It is, however, much higher than that of the developing world. Developing countries tend to have a much younger population generally, due to increased fertility and lower life expectancy.

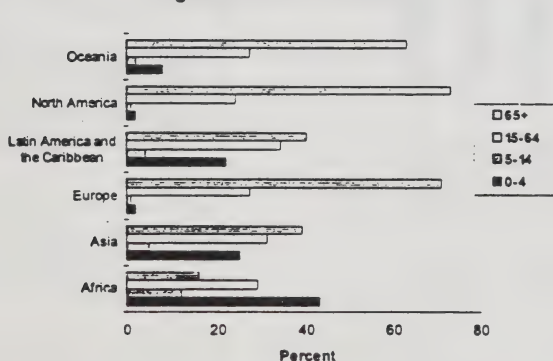
Canada's fertility rate is low in relation to many countries

Total Fertility Rates for Canada and Selected Regions



- In 1995, the total fertility rate for Canada was 1.7 births per woman, lower than the rates in many industrialized countries. As in most industrialized countries, the total fertility rate in Canada has been falling below the replacement level of 2.1 since the early 1970s.
- With the exception of China, fertility rates in the developing world are significantly higher. Africa still exhibits the highest total fertility rate, at 5.8 births per woman over the 1990 to 1995 period. This rate is projected to decline to 4.9 over the 2000 to 2005 period, still significantly higher than any other world region.

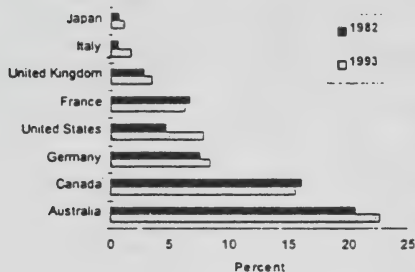
Age Distribution of Deaths



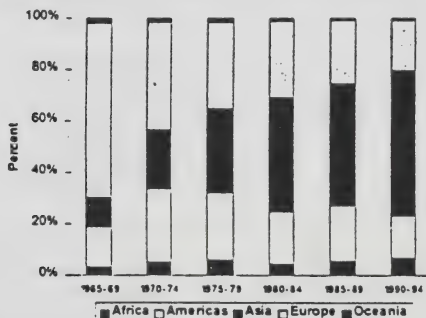
- More developed world regions combine very low mortality at young ages with a relatively old age structure, so that only 2% of all deaths occur at ages 0-4 and nearly 75% at ages 65 and over.
- In developing regions, a relatively high level of mortality at young ages is combined with an age structure that is also relatively young, resulting in 30% of deaths occurring at ages 0-4 and one third at ages 65 and over. African countries have even higher mortality at young ages and a younger age structure, resulting in 43% of all deaths occurring at ages 0-4 and only 16% occurring at ages 65 and over.

Canada has one of the highest proportions of immigrant populations

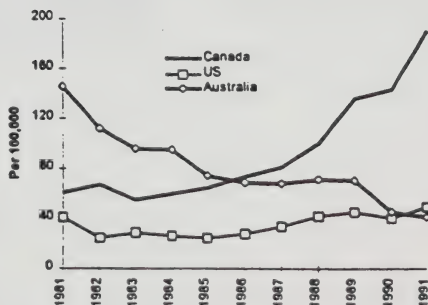
Percentage of Foreign or Immigrant Population,
Canada and Selected Industrialized Countries



Canada's Immigrants by Country of Origin

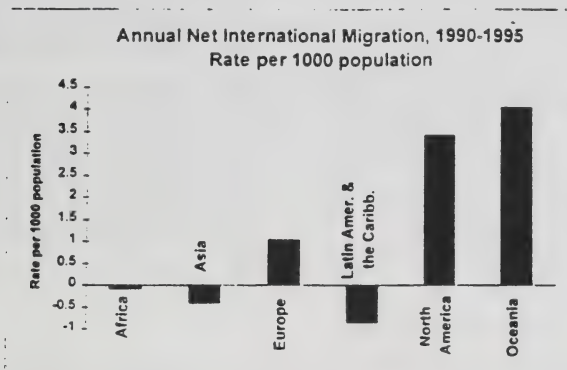


Refugees as a Proportion of Total Population



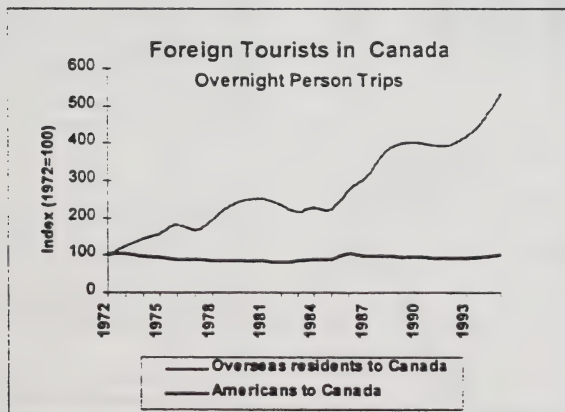
- With about 16% of its population foreign-born, Canada stands behind only Australia in terms of its large immigrant population.
- Although the majority of Canada's immigrant population was born in Europe, the European share of new admissions has declined substantially in recent years, while the share from developing regions, particularly from Asia, has increased substantially.
- The dramatic and continuing growth in immigration from Asia has diversified the ethnic structure across Canada. French and British origins remain the majority East of the Ottawa River, while the ethnic structure of B.C. is becoming much more diversified.
- Significant growth in immigration from Central and South America, the Caribbean and Africa has also occurred for Canada as a whole.
- Canada's immigrant population tends to be concentrated in urban areas. In 1991 about 84% of the immigrant population resided in Census Metropolitan Areas, compared to 61% for the population as a whole.
- Unlike the United States, Australia and Europe, Canada has no neighboring countries with high population growth and does not face the same spill-over immigration effects.
- Canada has always been a world leader in admitting refugees. In 1991, total admission of refugees was 190 per 100,000 population in Canada, compared with 49 in the United States and 41 in Australia.
- While in Australia total admissions of refugees have been declining since the early 1980s, they have increased markedly in Canada and the United States. Between 1981 and 1991, total admissions in Canada increased more than three times, from 15,000 to 53,000.

World population is migrating from developing regions to industrialized countries



- Over the period 1990 to 1995, Europe, North America and Australia and New Zealand experienced net in-migration, while Africa, Asia and Latin America and the Caribbean show net out-migration.
- Out-migration from Africa comes primarily from Eastern Africa, while all areas of Asia and Latin America and the Caribbean exhibit net out-migration.
- The level of net in-migration has been highest in North America in recent years, while the rate per 1000 population is higher in Oceania.

Travellers from overseas are making an increasing contribution to the Canadian economy



- Between 1972 and 1995, the number of overnight trips overseas residents made to Canada increased more than 5 times. In the last four years alone, they were up by 34%. In comparison, overnight trips to Canada by Americans have remained below their 1972 level for most of the 1974-1995 period.
- The overseas share of foreign visitors (including Americans) rose from only 5% in 1972 to 23.5% in 1995. Travellers from overseas tend to stay longer in Canada and spend more per trip than Americans, increasing their impact on the economy. Overseas residents generated 45% of Canada's international travel receipts in 1995, up from 19% in 1972.
- While the European tourist market is growing, the Asian market is booming. The lifting of travel restrictions in certain Asian countries, the growth of their economies, increased marketing efforts and a greater capacity and frequency of flights between Canada and Asia since 1994 have all contributed to the growth.

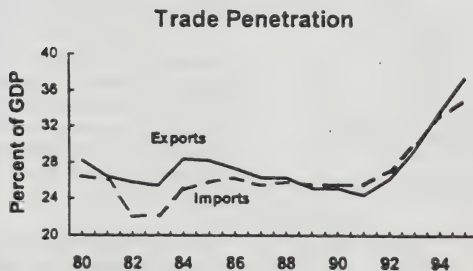
The Canadian economy experiences a swift re-orientation to international trade



- The share of nominal GDP accounted for by exports soared to 37% in 1995, up by more than half from the 24% share it posted at the beginning of the decade
- Canada's impressive export performance partly reflects ongoing weakness in the domestic economy. In the 1990s consumer spending has barely kept pace with population growth. The housing market and government spending have also shown persistent weakness.

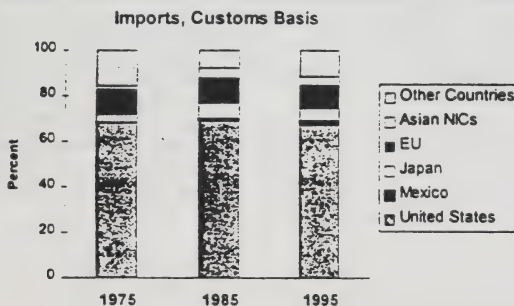
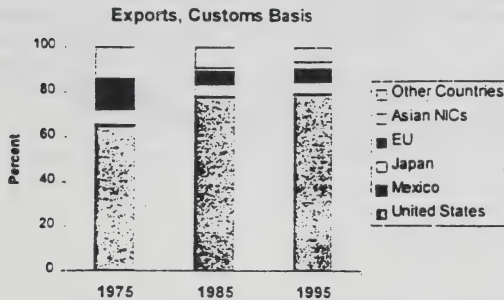


- From 1991 to 1994 Canada posted the fastest growth of any of the G7 nations in its share of the economy devoted to exports, putting Canada at the top of the G7 in terms of export dependence.
- Canada's heavy export dependence partly reflects a small domestic market, particularly since we are next to the world's largest market. Other OECD countries in similar situations have a similar orientation, partly to take advantage of economies of scale from specializing in niche markets.



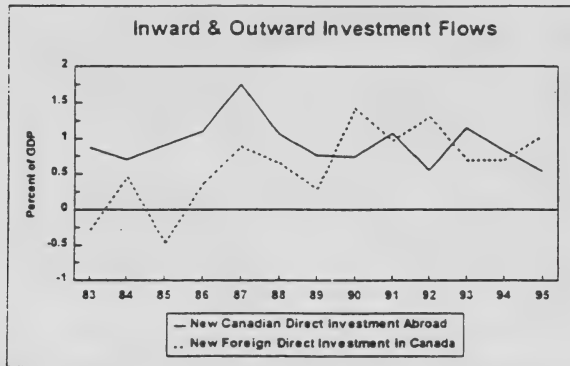
- Countries like Canada whose industry is closely intertwined with a major industrial region often import a partly assembled product, add slightly to its value then re-export, inflating the proportion of both imports and exports in GDP.
- Trade liberalization has also contributed to the sharp increase in both imports and exports as a percentage of GDP. Resulting industrial restructuring does not necessarily translate into net gains in output or employment.

The United States continues to predominate as Canada's most important trading partner

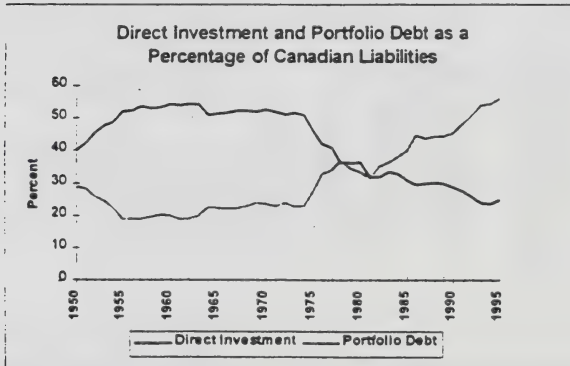


- Over the past two decades, the proportion of Canada's exports going to the U.S. has increased from 65% in 1975 to 79% in 1995. Canadian exports account for about 20% of the U.S. import market.
- The European Union is Canada's second largest export destination, and the proportion of Canada's exports going to Europe has steadily decreased over the period, from 14% in 1975 down to 6% in 1995.
- Despite the recent expansion of Asian markets, the share of Canada's exports to these countries has not increased significantly. Exports to the Asian NICs (Singapore, Hong Kong, South Korea and Taiwan) account for less than 3% of Canada's total exports. Japan receives about 5%.
- The United States is also the most important source of Canada's imports, accounting for 67% in 1995. This proportion has remained relatively stable since 1975.
- The share of Canada's exports that are resource based has been following a downward trend for the past two decades. Resource based goods declined from a peak of about 55% of total exports in 1974 to just over 30% in 1995. Other merchandise exports have picked up the slack, while the proportion of services in total exports has remained fairly stable over the past two decades.
- Recent increases in merchandise exports came mostly from machinery and equipment, particularly passenger autos and chassis, trucks and motor vehicle parts. These three items collectively made up about 20% of Canada's merchandise exports in 1995. Office machines and equipment are growing in terms of their importance in Canada's trade.

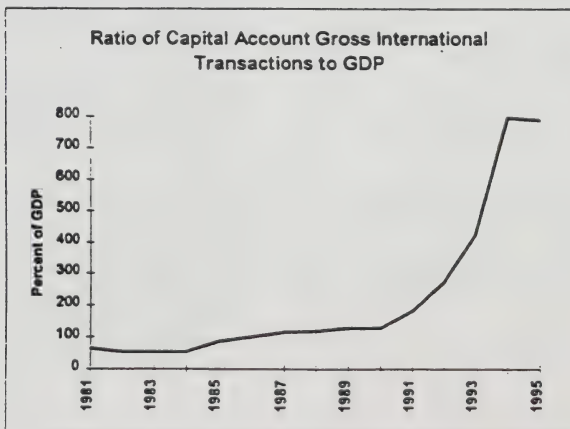
Canada's economy has become more integrated with the international community, particularly with the United States



- Increased trade flows have been accompanied by an increasing flow of new foreign direct investment to Canada, even relative to GDP. Canadian direct investment abroad has been relatively stable since 1983. Inward and outward flows of new direct investment have been about equal during the 1990s.



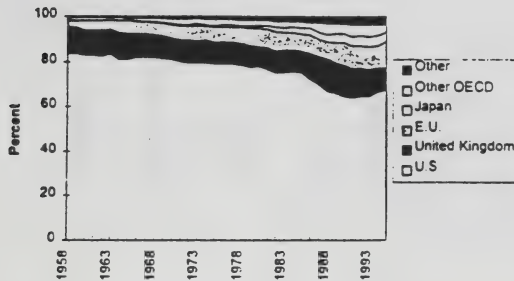
- Over the long term, from 1950 to 1995, the importance of foreign direct investment and portfolio debt have shifted quite dramatically. Foreign direct investment predominated up to the mid-seventies, then was eclipsed by portfolio investment in the early 1980s as the main source of foreign investment in Canada.



- Canada's international financial transactions have virtually exploded in the last decade in relation to the real economy. Using GDP as a yardstick, capital account gross international transactions were half to two thirds of GDP in the early eighties. These transactions have grown exponentially in the nineties to almost eight times GDP in 1995.

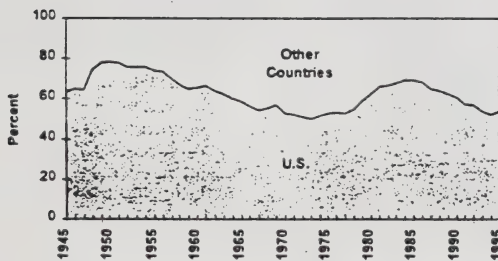
While the U.S. is still the most important player for both foreign direct investment in Canada and Canadian direct investment abroad, other countries are gaining ground

Foreign Direct Investment in Canada
by Country of Origin



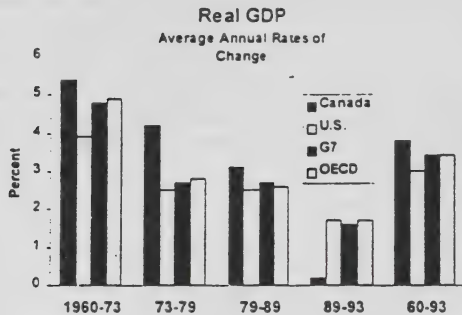
- From 1958 to 1995, the United States has been by far the largest foreign direct investor in the Canadian economy. The importance of U.S. direct investment in Canada has steadily lost ground to direct investors from Europe, Japan and other Asian countries, however.

Canadian Direct Investment Abroad

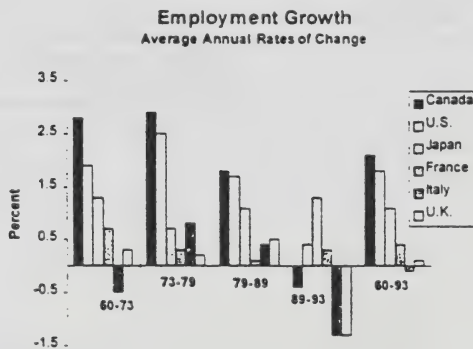


- Canadian direct investment abroad has historically been located in the American economy. Countries other than the U.S. gained in importance between 1950 and 1975, but have since lost some ground.

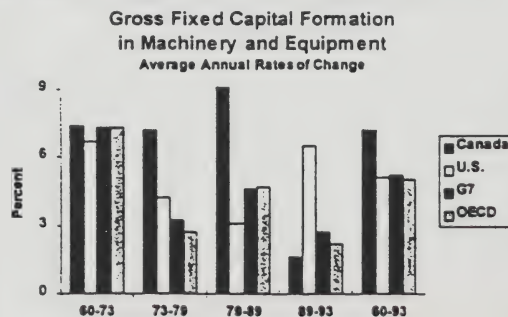
By international standards, Canadian growth rates for GDP, labour and capital have been high, until the recession of the 1990s



- Overall growth in Canadian GDP has been consistently higher than that of the United States and other OECD countries since 1960. Annual GDP growth averaged 3.9% in Canada between 1960 and 1993, as opposed to 3.4% in the OECD. The recent recession, however, has left Canada behind.



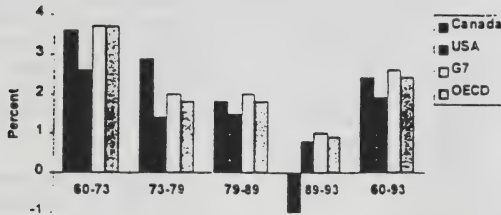
- Canada has also outperformed the US and other OECD countries with regard to employment growth. The differences in the performance of Canada and other countries are generally larger than for GDP growth. Once again, the 1990s recession was accompanied by a substantial deterioration in Canada's relative performance.



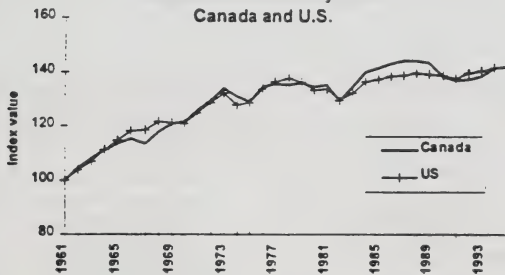
- Increases in real investment in machinery and equipment have also been generally larger in Canada than elsewhere in the OECD, though Canada's relative performance was once more dramatically affected by the 1990s recession. Since 1979, Canada's investment growth has been more dynamic than its employment growth relative to other countries.

Canadian productivity growth has also been good by international standards

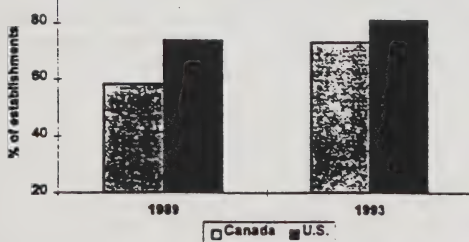
Real GDP Per Capita
Average Annual Rates of Change



Multifactor Productivity Rates
Canada and U.S.



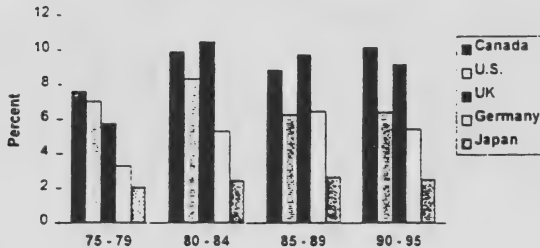
Use of at Least One Advanced Technology in Manufacturing



- A comparison of GDP per capita growth rates of Canada and OECD countries shows that Canada has generally outgrown its major trading partners since 1960. The recent recession, however, has been accompanied by inferior performance on the part of Canada.
- Underlying the growth in GDP per capita are changes in the productivity of Canadian industry. The broadest general measure of productivity improvement, multifactor productivity, shows that Canada is doing just as well as its major trading partner, the United States.
- The Canada - U.S. gap in technology use has narrowed in recent years. In 1989, 74% of American manufacturing establishments used at least one out of a range of 17 advanced technologies, while 58% of Canadian establishments did so. By 1993, the overall "technology gap" was halved from 16 percentage points in 1989 to only 8 percentage points in 1993.
- The Canadian disadvantage in technology use does not exist across all establishment size classes. In large establishments in 1989, virtually all (about 98%) used at least one advanced technology in both countries. For medium sized establishments Americans tended to be slightly more likely to use at least one technology than Canadians (81% vs 89%). The largest difference occurred in small firms, where the U.S. proportion was 67% compared to 50% in Canada.
- About 70% of the managers of Canadian manufacturing plants feel their production technologies are as good or better than their foreign competitors (whether design and engineering, fabrication and assembly, automated material handling, or inspection and communications technologies). Only for inspection and communications technologies is there evidence that more establishments feel they are behind (35%) than ahead (19%) of their foreign competitors.

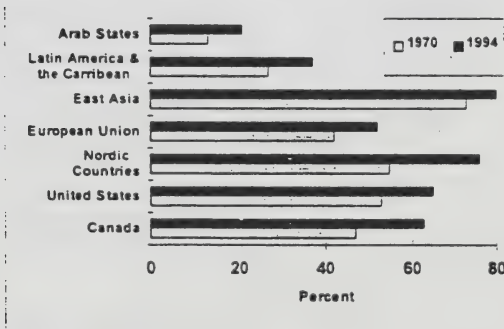
Canada's unemployment rate is high in relation to many similar countries

Average Annual Unemployment Rates of Selected Countries



- Canada's unemployment rate is relatively high in relation to many other countries, including the U.S. In recent years, it appears to have increased in relative terms. In 1995, Canada's rate adjusted to a U.S. concept stood at 9.5%, compared to 5.6% in the U.S. and only 3.2% in Japan.
- Among the G7 countries, only France (11.5%) and Italy (12.0%) had unemployment rates higher than Canada in 1995.

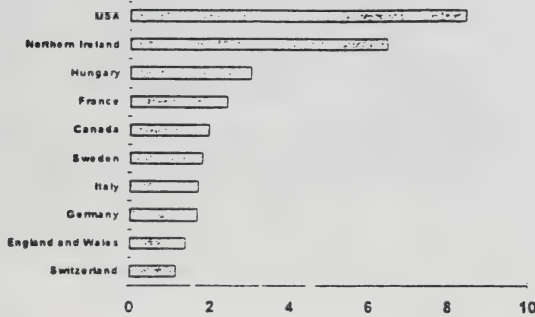
Female Employment as a Percentage of Male Employment



- Between 1970 and 1994, the ratio of females employed to males employed in Canada increased from 47% to 63%. U.S. proportions are comparable, while in Europe relatively fewer women are employed than men, 52% in 1994.
- In Nordic countries, female employment as a percentage of male employment is significantly higher, 76% in 1994. The ratio of employed females to males in East Asian countries has been relatively high since 1970, (73%) climbing to 80% in 1994.
- Only about 20% as many women as men were employed in Arab States in 1994.

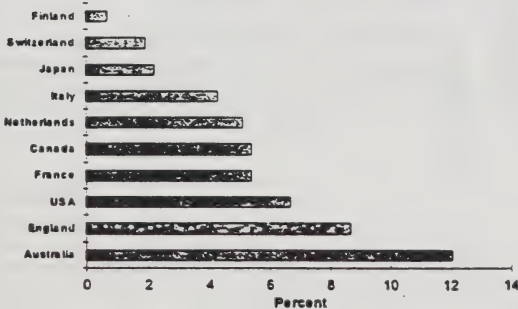
Canada's victimization rate ranks high among the international community, but Canadians are less likely to be fearful of criminal victimization

Homicide Rates, 1994



- According to the 1989 and 1992 International Crime Surveys, Canada's crime prevalence rate ranked fifth out of twenty participating countries. Other countries included in the top five were New Zealand, Netherlands, United States and Australia.
- Although official crime statistics show that Canada's rate of homicide is one-quarter that of the United States, it is still higher than many European countries.
- Canada ranked fourth highest in the percentage of victims that were satisfied with the police response when offenses were reported. In fact, Canada's result (75%) was much higher than the overall percentage of all participating countries (59%).

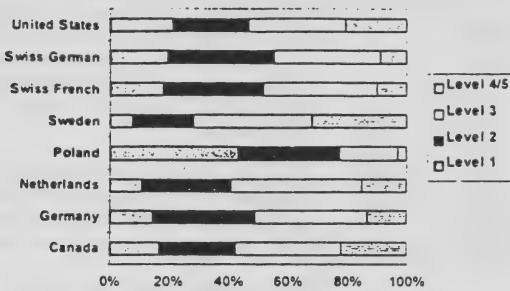
Percentage Thinking a Burglary Very Likely to Happen in the Coming Year



- Fear of crime is generally seen as an important element of the social costs of crime. Compared to the international average, Canadians are less concerned about their safety than their international counterparts.

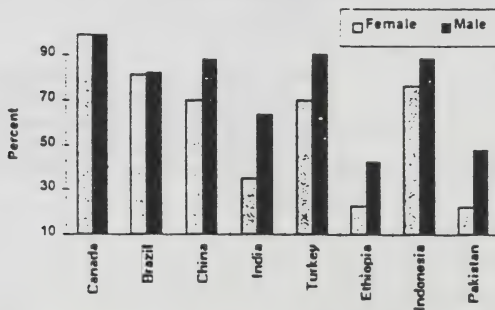
Literacy levels in Canada are about average compared with similar countries

Distribution of the Population by Literacy Level
Prose Scale



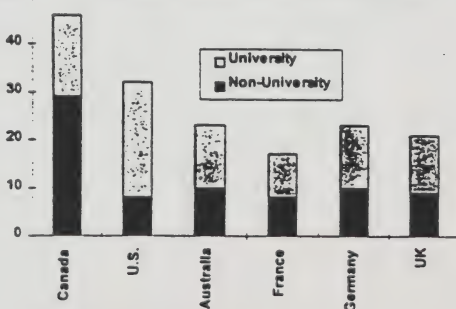
- When it comes to reading and understanding connected text, the proportion of Canadians with at least a basic level of literacy skills (level 2 or higher) was just slightly above the average of the countries shown, at about 83%. Sweden topped the list at 92%, and the United States was just under Canada at about 79%. The proportion for Poland was only about 60%.
- Canada fares somewhat better in terms of the proportion of people at the higher ends of the scale. About 58% of Canadians had a level of 3 or better on the prose scale. The only countries with a higher proportion at these levels were Sweden (72%) and the Netherlands (59%). The U.S. is close behind at 54%.

Adult Literacy Rates



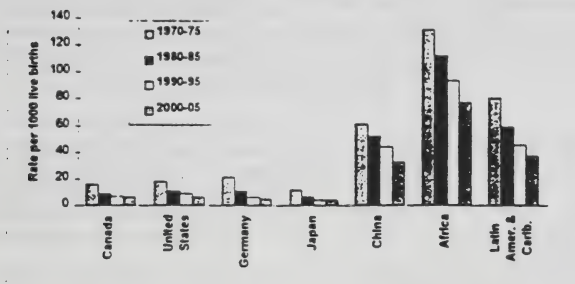
- Adult literacy rates in the developing world are relatively lower than those of industrialized countries, and gender differences tend to be more substantial. In China, for example, the male adult literacy rate is 88%, while the rate for women is 70%. In India, the female disadvantage in terms of literacy is nearly 30 percentage points.
- Canada exceeds the United States and many other countries in terms of the percentage of the population to have completed post-secondary education, either university or other, at 46% in 1994.
- Of those who had completed post-secondary education, however, proportionally fewer had completed education at the university level in Canada than in the U.S. Seventeen percent of Canadian adults had completed education at the university level, while 24% of American adults had done so.
- The only European country to exceed Canada's proportion of university educated adults was the Netherlands, at 21%.

Percentage of the Population 25 to 64 to Have Completed Post-Secondary Education, 1994



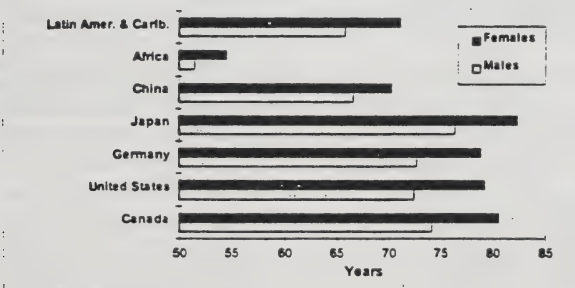
Health indicators reflect well on Canada, particularly in relation to the United States

Infant Mortality Rates



- Canada's infant mortality rates compare well with many industrialized countries, outstripped only by Japan and Germany.
- Low levels of infant mortality reflect the impact of better living standards, quality of medical care and general population health in developed countries.
- High infant mortality is more prevalent in the developing world, particularly in African countries. In 1995, the infant mortality rate for Africa was 93 per 1000 live births, more than 10 times the rate for industrialized countries.

Life Expectancy, 1990-95



- In terms of life expectancy, Canada is outranked only by Japan and Sweden. The U.S. has one of the lowest life expectancies among OECD countries, followed by Germany.
- Women are at an advantage in terms of life expectancy. The average woman in the world can expect to survive 4.1 years longer than the average man (66.5 Vs 62.4 years). The disadvantage for males has increased since the 1950s (it was 2.7 years in the 1950-1955 period)
- Life expectancy is much higher in industrialized countries than in the developing world, and the sex differential is larger. The average European woman is expected to live 8.1 years longer than her male counterpart, while in North America this discrepancy is 6.7 years.

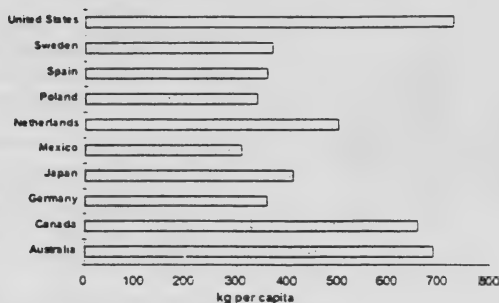
Health Expenditures as Percentage of GDP



- Canada and the U.S. have among the highest health care expenditures in relation to their Gross Domestic Product. Growing health care costs have led to health care reform efforts in many countries.

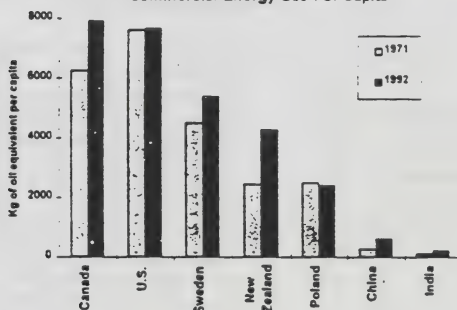
Canada is one of the top waste producers per capita in the world and ranks first in commercial energy use

Municipal and Household Waste Generation, 1992



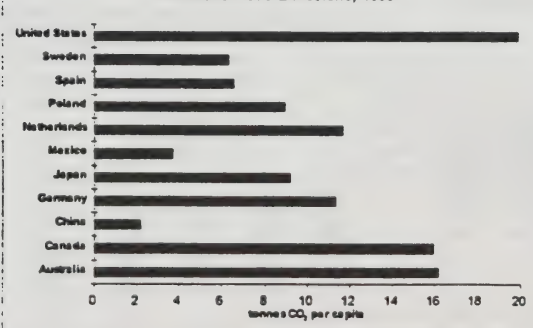
- In Canada, about 660 kg of municipal waste was generated per person in 1992, slightly less than the average of 730 kg for the United States and 690 kg for Australia.
- Much of the waste is made up of plastics, packaging and newspapers. Particularly in industrialized countries, landfill sites are increasing in size and it is becoming more difficult to dispose of the large volumes of waste generated.
- More recent methods of reducing wastes entering landfills include recycling, waste taxes or per bag charges on waste and programs to promote home and municipal composting.

Commercial Energy Use Per Capita



- Since 1971, commercial energy use in Canada has increased more than 25% up to almost 8,000 kg of oil equivalent per capita. This amount is 60% higher than the average for all industrialized countries, and more than five times the world average.
- Fossil fuel consumption is a major source of carbon dioxide. Scientists predict that increasing amounts of carbon dioxide (and other so-called greenhouse gases) will lead to rapid warming of the earth's lower atmosphere

Greenhouse Gas Emissions, 1993



- The United States, Australia and Canada are among the world's highest per capita greenhouse gas producers, due to high per capita fuel consumption and industrial activity.
- Greenhouse gases shown in terms of absolute quantities emitted reflect the size of the population and economy. Emissions per capita provide a more useful comparison of greenhouse gas intensities for countries with different economic and population structures.
- China, the second largest total greenhouse gas producers in the world, produced just over 2 tonnes of carbon dioxide per capita, about 10% of the United States level.

Postscript

International statistical comparisons are fraught with pitfalls. Despite the existence of international standards in many statistical domains, international comparative tables are usually accompanied by extensive footnotes that can be important. The tables and graphs presented here provide broad trends and comparisons without all the qualifying footnotes. If significant decisions are being based on these comparisons it is usually worth going back to the original sources (which we can identify) for fuller information.

This observation leads to two statistical issues relevant to the policy research agenda. The first is a governance issue. The U.N. has been weak in its role of developing statistical standards to facilitate international statistical comparisons. The European Union, through its statistical agency, Eurostat, however has developed standards that apply (often with the force of law) to EU members, and to which prospective members also pay close attention. Statistics Canada has protected Canada's interests in this area through the promotion of a tripartite cooperative program between ECE (Geneva), OECD and Eurostat that ensures a voice for the members of all those organizations in the definition of statistical standards which usually become de facto world standards. This arrangement does not necessarily lead to the best outcome for the developing world which has only the UN and its regional commissions to rely on.

The second issue is that globalization is making statistical measurement tougher. Tracking the activities of multinational companies and attributing their various activities and transactions to the appropriate category and geographic location is difficult both conceptually and operationally. Statistical laws have limited jurisdiction outside the frontiers of the country so that obligations to provide information can be disputed. As a second example, the reduction of customs barriers deprives statisticians of an important source of information - and lead to a disruption in the production of trade statistics within Europe a few years ago. These issues need to be addressed internationally, either bilaterally (as in the case of Canada-US trade), or multilaterally to ensure proper accounting of the world-wide activities of MNCs.

Part



An Agenda for Research

ANNEX

An Agenda for Research

This annex is a compendium of the research issues listed at the end of each of the first thirteen Discussion Papers.

For further detail, see the corresponding Discussion Paper.

1. Canada's Role in 2005

The following is a list of some of the more important, cross-cutting issues on which research will be needed to sustain policy development and policy responses over the medium term.

More research is required:

1. to determine the relevant and perhaps shifting weight of *interests* and *values* for Canadians. Which issues play to both galleries?
2. on which *emerging economies* will be key to the promotion of Canadian interests in 2005.
3. on how *soft power* can be deployed to our benefit in such areas as:
 - the perception of Canadian unity,
 - the attraction of foreign investment and skilled immigrants,
 - tourism,
 - multilateral security arrangements.
4. to identify potential high intensity conflicts where Canada will want to, or will be expected to, contribute.
5. into what multinational forces are conceivable without significant USA involvement.
6. into such things as the size of Canada-based industry relative to globalized industry, what domestic jobs are associated with globalized firms, and how the activities of head offices relate to foreign subsidiaries in Canada.
7. into the implications of integration for harmonization and convergence in areas that were exclusively domestic domains.
8. into which low intensity conflict operations are possible, and where indigenous peace-keeping capacity can be engendered.

2. The International Context

- ☐ Factors that could derail the current process of globalization, and the consequences of such a change?
- ☐ Implications of the globalization, and the more stable international environment, which are changing the way assets such as knowledge, skills, flexibility and mobility are valued and rewarded.
- ☐ How countries can best position themselves for the future.
- ☐ Where globalization will lead the global community and societies within it if it continues along present lines
- ☐ The evidence for whether and to what extent technology can "kick-start" the developing world
- ☐ Whether our economic and comparative arrangements are well adapted to a globalized world
- ☐ How we might adapt the interface between governments and civil society

3. Canada-U.S. Relations

Competitiveness

1. To what extent does the performance of Canadian manufacturers and our labour productivity lag behind U.S.? What are the reasons for this, and what can be done about it?
2. How can we attract and retain quality investment? What motivates investment decisions in the North American market?
3. How can we educate, attract and retain highly-qualified people, and how can we retrain existing employees in declining industries?
4. What informational tools could be of use in assisting SMEs in expanding their operations into the U.S. and other markets?
5. How can Canadian advantages (e.g. education, social policy, intellectual property law, resource stewardship) provide a competitive edge in the market?

Integration and Convergence

1. Where is integration of policies, standards and regulations to our advantage and where do we risk losing important competitive or social advantages or Canadian cohesion/cultural advantages? Are there areas in which it makes sense to integrate sooner as opposed to areas that should be on a slower track?
2. What are the factors that go into developing the "critical mass" for an industry to develop in one area as opposed to another? In which industries it matters more than in others?
3. How much do our foreign policy objectives diverge from, and how much are they locked into those of the U.S.? How can we distinguish ourselves from the U.S. and promote our own values and culture without repercussions for the economic relationship?
4. What are the best ways to protect Canadian identity by encouraging the expansion of Canadian cultural expression and productions, particularly in new areas of technology?
5. What are the factors that may promote political integration, and how can Canada respond?

Expanded Rules and Multilateralism

1. Which international organizations or institutions are most useful for assisting Canada in its relationship with the U.S.?
2. What alliances could usefully be formed with other countries, in particular non-traditional allies, in the pursuit of common goals vis a vis the U.S.?
3. Which changes to international trade rules could complicate the bilateral trading relationship, and which ones could enhance it?

4. To what extent does the Canada-U.S. relationship constrain our ability to pursue independent goals? To what extent does it offer a vehicle to promote our interests on the international scene and to achieve our domestic objectives?

Fiscal Constraints

1. How can governments respond effectively to increased pressure on social programs without hurting the government's agenda on debt and deficit?

Policy Constraints

1. What new forms of political structures and linkages would contribute to better management of the Canada-U.S. relationship without undermining our sovereignty, e.g.:
 - a Cabinet Committee on managing the Canada-U.S. relationship (including defence) and coordinating the activities of the various federal departments.
 - possibility of institutionalizing and formalizing regular contact between Cabinet ministers and Secretaries
2. What kinds of relationships are evolving between provinces and NGO and their counterparts in the U.S.?
3. How can federal, provincial and municipal governments and NGOs more effectively work together on Canadian issues?
4. How are regional actions in the U.S. (e.g., acid rain) likely to affect Canada?

4. Economic Globalization

Strategic issues for further investment in policy research and ongoing information base development to support future-oriented policy development by both orders of government include

1. How do Canada's science and technology and innovation systems compare with those of its major competitors in each of the fields of major Canadian strength, and in niche markets within other fields, including telecommunications and computer software, aerospace, natural resources, business and financial services?
2. How do best practices in Canadian manufacturing and resource-processing firms compare with those to which multinational firms are outsourcing production, and with "core" manufacturing capabilities in the United States, United Kingdom and Germany in particular?
3. How well do indicators of Canada's provincial, territorial and urban region efficiency, labour standards, literacy, gender equality, social safety net, and environmental standards show them to be performing in relation to its major competitors in both developed and emerging economies? This assessment should take into account product quality, productivity and timeliness of service, and should extend to comparisons with individual states of the United States and perhaps to other sub-regions within Canada's major competitors.
4. How can Canada's use of international development assistance further encourage greater economic and social self-sufficiency on the part of developing and emerging economies, turning them into markets and parts of the global economy?
5. How can Canada's international leadership on climate change, airborne toxics and sustainable natural resources development be made even more effective, e.g., in seizing opportunities for joint implementation, technology twinning and global emissions trading?
6. How do indicators of Canada's social resiliency and cohesion, safety, identity and security compare with those of its major competitors? Is it adjusting better, as well as, or more slowly than its major competitors, including those in emerging and transitional economies.

5. The Trade Agenda 2005

Research Questions

1. Why has the participation of small and medium-sized Canadian enterprises in international trade been poor? How can it be improved?
2. How can the volume of trade in services be measured? What about investment? How can consistency in measurement be pursued at the international level? How can intra-firm trade be measured? How do economic indicators need to evolve in order to better capture the state of economic activity?
3. What lessons can be learned about economic integration and the national/sub-national dynamic elsewhere in the world? How do regional arrangements like Mercosur, ASEAN and the EU work?
4. Should Canada seek to harmonize its domestic standards and technical regulations? To harmonize them with the U.S.? In which sectors? What are the costs and benefits of maintaining separate standards and technical regulations? What would an international regulatory regime for standards-related measures look like?
5. Can international competition policy effectively take the place of national anti-dumping laws in free trade areas like NAFTA? What would be the costs and benefits associated with eliminated anti-dumping and focusing on competition policy?
6. How important to Canadian competitiveness and prosperity is outward investment from Canada? How can governments promote outward investment? What are Canada's competitors doing?
7. How does Canada's overall regulatory regime and infrastructure compare to that of our competitors in attracting inward foreign investment?
8. How does trade benefit the importing market?
9. How can we measure effectively the impact of trade policy initiatives on the environment?
10. What are the trade- and investment-distorting aspects of tax policy and how does Canada compare with regard to its principal trade partners and competitors?
11. How important are the remaining inter-provincial trade barriers? Which sectors are most affected? What impact does North American integration have on internal trade issues? How do internal trade barriers affect the international competitive position of Canadian exporters?

Policy Questions

1. What is the most effective way to manage Canada-U.S. trade relations in the future? What form might further liberalization take?
2. Which sectors, if any, might it make sense to liberalize unilaterally?
3. Are there sensitive sectors in Canada? Are they the same as those of our major trading partners? How might this affect future trade policy negotiations? In international negotiations, what can Canada give and what must we get in return?
4. Is Canada's foreign investment regime still appropriate in the current and future global context?

5. When and how can the necessary coalitions be put together to enable Canada to move on the agricultural questions of supply management and state trading enterprises?
6. How could a more targeted use of official development assistance help meet international development objectives *and* contribute to Canadian prosperity by supporting trade and investment? Should it focus on important new trade and investment markets? What is the role of technical assistance?
7. Is there a role for governments in trade promotion? If so, what is it? Does it include export financing and, if so, what form?
8. How can non-government boycotts of Canadian products be managed effectively?
9. What opportunities are there to use the trade policy agenda to promote environmental improvements?
10. Which issues on the trade agenda will be of greatest interest to provincial governments? Are there other issues in which the federal government will need to have provincial support? Do we have the right mechanisms? How can we improve federal-provincial discussions on these issues, including in the C-Trade?
11. What issues on the trade agenda will be of broad public interest? What process can be developed to ensure that public opinion is well-informed? How can current processes (SAGITs, ITAC) for non-governmental consultation be improved?

6. Economic Integration and Domestic Policy

For Canada to make the most of its opportunities for greater integration into the world economy, it is essential that we better understand the pressures this evolution exerts on domestic policies and the mechanisms through which these pressures come to bear.

Experience to date of the **impact of trade liberalisation** on Canada's economic performance and the role of domestic policies in shaping trade and investment outcomes suggests the following questions for further research:

1. What determines the location of foreign direct investment?
2. Whether a return to a sound fiscal position will allow Canada to use monetary and fiscal policies to smooth economic fluctuations
3. Whether social programs have acted as a deterrent to foreign investment and if so in what way? Alternatively, whether these programs, if appropriately designed, can serve to attract investment
4. Any evidence of a change in the direction of provincial trade flows and its impact on the role and desirability of federal/provincial transfers.

A second area of concern is likely trends over the medium term. With the increasing importance of developing countries in international trade, we must acquire a better understanding of the likely trends in these countries. We need to know more about:

1. How quickly greater integration of these countries into the global marketplace might result in an increase in wage rates and an improvement of working conditions.
2. What determines the investment decisions of multinational enterprises. In particular, what role do labour quality, costs, and working conditions play in these decisions.

Third, unlike wages, it may be possible to influence working conditions in developing countries. The promotion of a set of core labour standards is an objective supported worldwide for both humanitarian and economic reasons.

1. Canada should, in consultation with relevant countries and international institutions, participate in research efforts to identify the best means of promoting and enforcing respect for these standards.

7. Technology and the Knowledge-Based Society

Enhancing Canada's comparative advantage

Requirements for new research can be grouped into two categories:

1. Research to identify and enhance specific areas of comparative advantage for Canada, for example:
 - International market niches for natural resources science and technology and the costs and benefits of the transfer of natural resource technology to Canada's competitors.
 - Comparative analysis of environmental regulations and standards regimes in Canada and other countries, particularly as they pertain to the natural resources sector; analysis of the gaps in technology necessary to adequately address these.
 - Analysis of the extent to which trade and investment has shifted to knowledge-intensive industries in the wake of NAFTA.
 - Economic benefits of information technologies in the agricultural sector.
2. Research to support the enhancement of Canada's competitiveness generally in a knowledge-based society, for example:
 - Linkages between Canada's competitiveness and use of advanced technologies and transportation infrastructure; and analysis of the type of physical transportation system that can best satisfy the requirements for increased accessibility in the knowledge-based society.
 - The dynamics of technologies in education, including performance indicators, success factors, and impact on specific populations (youth, seniors, persons with disabilities, Aboriginal communities); as well as their use in industry-based education and training.
 - The extent of out-migration and its social and economic implications.

Developing and marketing Canadian cultural products internationally

- ☐ International trade patterns and the competitiveness of Canada's cultural industries, particularly those using new technologies.
- ☐ Alternative policy models to encourage the creation and diffusion of domestic content and promote the diversity of content.
- ☐ Means to enable the digitization and diffusion of cultural and heritage resources.
- ☐ Technological and policy mechanisms to enforce copyright for the electronic dissemination of cultural products.
- ☐ Foreign and cross-media ownership.
- ☐ Impact of technology on patterns of distribution and consumption of cultural products.
- ☐ Linkages and possible synergies between culture, science and technology.

Avoiding fragmentation and promoting social cohesion

- ☐ Research on the level and types of participation in the information society, both in Canada and internationally.
- ☐ Best practices research on the means by which countries balance international competitiveness and domestic cohesion concerns.
- ☐ Research to guide the development of appropriate roles for the public and private sectors, in particular regarding the equity effects of new technologies.
- ☐ Implications of the knowledge-based society for the maintenance of national values and symbols, and for attachment to Canada and engagement in civic life.

Exerting Canada's "soft power" influence in the world

- ☐ Empirical analysis is required on the linkages between the exercise of "soft power" and the advancement of Canadian political, economic and societal interests in the international community.
- ☐ Research to support the strategic use of information and communications technologies in the exercise of "soft power."

Governance in the information society

- ☐ Research to help in define the optimal role of national, regional and supra-national institutions of government, as well as that of the private sector and civil society, in developing and regulating the knowledge-based society, particularly emerging areas such as electronic commerce on the Internet.
- ☐ Analysis of international best practices in government service delivery to citizens using information technologies.

Changing dimensions of international conflict and national security

- ☐ Research on actual and potential threats to national security posed by economic espionage, "cyberterrorism", and attacks on Canada's information infrastructure; research on technological and policy means to counter these threats.
- ☐ Analysis of developments in military technologies which Canada will need to 2005 and beyond to counter emerging military threats; identification of areas of military technology in which Canada may be able to establish a market niche.

Integrating developing countries into the knowledge-based society

- ☐ Information and analysis on the links (investment, technology transfer, labour) between North and South in information and communication technologies; analysis of the costs and benefits of alternative investment approaches by industrialized countries to help create an environment in developing countries conducive to their integration into the knowledge-based society.
- ☐ Research on the "transportability" of educational and cultural hardware and software

8. Human Security

Managing the Forces that Affect Global Human Security

Population Growth and Demographic Trends

- ☐ Implications of world population growth for Canada and how to deal with them
- ☐ Strategies to address population growth and its impacts

Poverty and Economic Security

- ☐ Interventions to address global poverty and enhance economic security
- ☐ Education strategies to prepare people for the labour market of the future

Inequities in Access

- ☐ Strategies to encourage equity especially in the situation of women
- ☐ Interactions between economic, social and political development and human rights
- ☐ Impacts of international human rights developments on Canada's domestic policy-making

Food Security

- ☐ Long-term implications of increased economic prosperity, increased urbanization and changing eating habits on food demand and production
- ☐ Likely impacts on world prices and Canadian agriculture and food trade of the changing geo-political environment

The Environment

- ☐ Linkages between urbanization, poverty, energy consumption, economic development and the environment
- ☐ Linkages between environmental degradation and migration
- ☐ Factors contributing to increased consumption of fossil fuels and strategies to encourage efficient energy consumption?

Aid, Trade and Development

- ☐ Benefits of a more structural approach to development assistance
- ☐ Long-term costs/benefits of trade liberalization
- ☐ Development strategies to address education, technology and governance
- ☐ Involving the private sector, especially multinational enterprises

Managing Impacts of Global Human Insecurity on Canada

Health

- ☐ International transmission of infectious diseases and vulnerabilities of the Canadian population
- ☐ Strengthening control and surveillance systems , as well as information collection and dissemination
- ☐ Costs of tobacco consumption in both developed and developing countries
- ☐ Economic alternatives to tobacco production

International Migration

- ☐ Preventing mass migration and encouraging orderly migration
- ☐ Risk that Canada will face unmanageable influxes of involuntary migration
- ☐ How to prepare for such a scenario

Crime and Terrorism

- ☐ Illegal and involuntary migration to Canada, including clients of alien smugglers
- ☐ Strategies to limit access to national territories by criminals and terrorists
- ☐ Political, economic and social factors that encourage growth of crime networks

How to Prepare for the Future

- ☐ Developing action plans to anticipate and manage crisis
- ☐ Forces that can impact on Canada and their risks and opportunities.

Overall

Priorities for research should include:

- ☐ An inventory and analysis of domestic and international research across all disciplines related to human security issues.
- ☐ Identification and analysis of multidisciplinary approaches used both successfully and unsuccessfully to address problems of human security.
- ☐ Creation of scenarios and research agendas to support the development of action plans for dealing with human security issues and events

9. National Security And Public Safety

Research into threats to national security and public safety involves, first, understanding the causes and extent of instability within and outside Canada, and, second, understanding the nature of the threats themselves and how they can be countered. Thus with respect to the threats identified in this paper, the following are some basic areas for research

1. Causes or symptoms of instability
 - existing and suspended hot wars, both between and within states
 - potential ethnic and religious conflicts
 - territorial and border disputes
 - failed and failing states; concentrations of refugees
 - migrations of people dislocated from their places of origin
 - cases of torture and other violations of human right
 - inequities in global income and national product
 - changes in class mobility within developed economies
 - exportable health problems and communicable diseases
 - food and water availability
 - depleted and depleting environments
 - production and availability of vital commodities, and
 - indices of democracy and the rule of law.
2. Indications of threatening situations or activities
 - exports and imports of weapons of mass destruction
 - problems in control of nuclear weapons and fissionable material
 - terrorist activities around the world, and any links to Canada
 - the changing nature of espionage activities
 - vulnerabilities of information systems
 - international criminal activities, especially with Canadian links

10. Political and Military Security

1. Causes of Conflict and Possibilities for Avoidance

- The role of religion and ethnicity in conflict
- The challenge of societal collapse, factors that lead to collapse, warning indicators, and the responses open to the international community
- The impact of sanctions on the behaviour of pariah states like Iraq that do not subscribe to international rules
- Development of a database to help assess conflict potential round the world and the security implications for Canada
- Confidence- and security-building measures as they relate to arms control and regional security, and how other countries view these issues
- Arms control and the global information infrastructure (cyberspace)

2. Military Issues

- Types of arms that may be used in future conflicts
- Degree to which Canada and other Allies are maintaining interoperability with U.S. forces, and steps which Canada must take to maintain interoperability with major potential peacekeeping and coalition partners
- Developments in military technology identifying areas to which Canada could contribute and from which it could derive the most beneficial spin-offs
- Analyses of the threat posed by weapons of mass destruction, new weapons and the arms races of the future

3. Peace Operations

- How peace operations should be "sequenced" from early, short-term military assistance to follow-on, longer-term civilian activities
- Strengths and weaknesses of governmental and non-governmental participation in humanitarian relief situations, and in particular the role of non-governmental organizations in peace-building

4. Other Issues for Canada

- Threats to Canada posed by intra- and inter-state conflict
- Forecasting perturbations in the international system in light of Canada's interests and resources
- Strategic trends associated with existing or potential great powers (or regional powers) in relation to Canada's security interests
- Analysis of competing demands of sovereignty and "human security"
- Impact of public concerns regarding potential military responses to a variety of scenarios relating to instability or conflict
- Relationship between intra-state conflict and the trading concerns of Canada and its partners

11. Governance

Globalization and the Shrinking State

There is a need for research on:

- ☐ federal and provincial policies and laws to ensure that Canada's international obligations are met;
- ☐ how the decentralization of power affects the ability of governments in developing countries to meet basic human needs;
- ☐ how to promote community organizations and citizen participation through ODA and through cooperation with IFIs;
- ☐ the need for harmonization of various international law regimes;
- ☐ the need for changes in fiscal and regulatory instruments to deal with increasing privatization of economic and public services;
- ☐ the convergence of social and economic agendas in the new international context;
- ☐ new forms of research and consultation involving provinces, NGOs and individual Canadians in policy issues at home and abroad.

Gaps in Global Governance

There is a need for research on:

- ☐ potential conflicts among various international, multinational, regional and other regimes in both trade and non-trade areas;
- ☐ the full range of roles of IFIs;
- ☐ the division of roles between military and non-military international organizations.

The Rise of Intra-State Conflict

There is a need for research on:

- ☐ the evolution of democracy in developing nations, and especially the potential for the rise of extreme nationalism as a reaction;
- ☐ the causes and nature of intra-state conflict, including inter-ethnic tensions;
- ☐ early warning mechanisms and possible interventions to avert intra-state conflict, including the role of peacekeeping and ODA;
- ☐ the implications of changing demographics in Canada, including measures to assist the economic and social adaptation of immigrants;
- ☐ the implications of rising intra-state conflicts for Canada's policies in the areas of foreign policy, defence, ODA, immigration, etc.

12. Values and Culture

Cultural Identity

1. Research to aid in developing cultural promotion strategies:
 - developing an inventory of government programs and policies of relevance to the promotion of Canadian culture overseas;
 - developing an inventory of Canadian cultural resources, including cultural industries within Canada and cultural festivals;
 - collecting data on trends in cultural consumption by non-Canadians (in Canada and overseas), in part to assist in the development of international marketing campaigns;
 - developing an inventory of relevant cultural festivals and trade fairs abroad that provide a strong venue for the promotion of Canada's cultural industries;
 - identifying potential strategic alliances and international co-production agreements to promote domestic cultural industries; and
 - identifying opportunities for cultural exchanges between individual creators and between cultural organizations.
2. Comparative research on cultural policies abroad:
 - positive measures undertaken by other countries to promote culture, domestically and abroad; and
 - restrictive measures adopted by other countries to promote domestic production and curb foreign domination.
3. Additional areas for research on Canadian culture:
 - the role of new information technologies and media (e.g., CD-ROM) in culture and distribution of cultural products;
 - the interaction between new technologies and the production and preservation of Canadian cultural heritage;
 - development of an inventory of foreign students and alumni societies, as well as means to maintain contact with them;
 - the impact of budget cuts on the projection of Canadian culture (for example, Radio-Canada International);
 - opinion surveys to determine the nature of Canada's image abroad;
 - the role of cultural expression and exchange (the arts, sport, the natural and built heritage, domestic travel) in promoting social cohesion in Canada.

Canadian Values

1. Research into Canadian values to identify:
 - levels of global awareness among Canadians;
 - the nature of Canadian interest in international affairs; and
 - Canadian opinion on foreign policy priorities and values.
2. Opinion research to develop a better sense of Canada's image abroad, with an emphasis on foreign perceptions of Canadian values.
3. Research to identify:
 - communications strategies for building global awareness in Canada; and
 - Canadian resources of relevance to shaping global values (e.g., expertise in human rights, governance and gender equity).

Immigration and Cultural Diversity

1. Research to explore:
 - the potential of newer cultural communities to contribute to foreign relations and economy;
 - the development of strategies to involve these communities in public life and Canada's relations with other countries; and
 - the impact of cultural diversity on Canada's social cohesion, culture and values.

13. Environmental Sustainability

Enhancing the Effectiveness of International Processes.

- ☐ Means of integrating economic and social considerations.
- ☐ Means of strengthening compliance and dispute settlement mechanisms.

Engaging Developing Countries.

- ☐ Mechanisms to enhance the role of private sector investment in developing countries, their role in facilitating technology transfer in the environmental field, and a greater role and more accountability for the private sector in international fora.
- ☐ An evaluation of the effectiveness of the mix of policy instruments employed to date (e.g. development assistance, trade controls, multilateral funding mechanisms, industry certification and codes of practice etc.).

Encouraging Innovation by the Private Sector.

- ☐ Developing a better understanding of the relative effectiveness of policy instruments capable of addressing the barriers to and determinants of innovation.
- ☐ Improved understanding of the trajectories of existing patterns of consumption and production and the related public policy challenges.

Benefiting from Opportunities in Emerging Markets

- ☐ The role played by environmental regulations and standards in foreign markets in setting the broad framework for demand for environmental goods and services.

Maintaining Canada's Influence

- ☐ Defining the key conditions of a knowledge broker role in environmental and sustainable development. An identification of global knowledge gaps would be a useful starting point.
- ☐ Identifying the skills and capacities needed to make and to shape environmental policies globally, the key access points, and the determinants of success.

Part



Appendices

TERMS OF REFERENCE

Objectives

- In its report, the ADM Policy Research Committee noted that one of the lessons learned was "that the lines between domestic and international issues are blurring everywhere". The purpose of the ADM Subcommittee is to formulate a research agenda and work program to make explicit the growing international linkages affecting Canada over the next 10 years with a view to assisting foreign and domestic policy-makers take into account these linkages in their decision-making and to defining Canada's strategic position in the world in 2005.
- Building upon the work of the ADMs' Policy Research Committee on the domestic agenda and the Deputy Ministers' Committee on International Affairs, the ADM Subcommittee is asked to prepare a report for Deputy Ministers assessing the growing linkages and their implications for Canada over the next decade. The intent is to develop a composite, horizontal picture of the expected external pressures on Canada in 2005 that could affect Canada's vital interests, prospects and international strategies.
 - The report should provide an overview and assessment of the linkages based on the analytic research findings of Departments and other sources.
 - The report should re-examine the pressure points and research gaps identified in the PRC report and in the deck "International Trends to 2005: Choices for Canada", with a view to seeing if, from an international perspective, new pressure points emerge and new light is being shed on domestic issues and international challenges.
 - The report should identify pressure points and also suggest key policy implications on the research findings.
 - The report should identify the main factors which might influence Canada's vital interests and place in the world in 2005;
 - Finally, the report should make recommendations regarding an interdepartmental research agenda and work program to help address gaps in knowledge and ensure timely identification of emerging global trends and their impact on the domestic scene and Canadian foreign policy strategies to shape the international agenda.

Elements of Workplan

- Request participating departments to prepare 3-pagers setting out the linkages between their areas of operation and policy and the international context.
- Through these papers, and in subsequent discussions and synthesis work, review results of departmental research activities regarding economic growth, governance, human development, security and cultural expression, social cohesion and world geopolitical and strategic stability, with emphasis on aspects having a direct bearing on Canada's future place in the world and involving international relations, Canada-U.S. relations, multilateral institutions, and international commitments and agreements.
- Analyze research results for major international trends and pressures, having a direct impact on Canada.
- Draw conclusions regarding key international/domestic linkages affecting Canada over the next ten years, and the pressure points and related policy issues they raise for decision-makers both in domestic policy terms and in positioning the country to face these emerging challenges and opportunities.
- Assess likely impact on Canadian society, foreign and trade policy, and on Canada's place in the world given current policy framework.
- Assess approaches of other nations to emerging global challenges with a view to identifying lessons learned and best practices for Canada.
- Determine research gaps.
- Formulate a research agenda and work program to continue to identify opportunities and challenges to the year 2005 and to address research gaps.

Expected Output

A brief report, supplemented by a number of issue and related cluster/theme papers, will:

- clarify the on-going changes in the global socio-economic and geo-political environment, to the year 2005;
- identify the key linkages between international developments and the domestic agenda, to the year 2005;
- assess the implications of these linkages for Canada;

- identify the critical pressure points and related policy issues;
- determine the research gaps (i.e. key information needed before good policy advice can be given); and,
- recommend an inter-departmental research agenda and work program designed to address these information gaps.

Timeframe

- Presentation of mandate and work program to Deputies at their Fall Retreat.
- Final report ready by the end of January 1997 for presentation to the ADM Policy Review Committee and the DMs' Committee on International Relations.
- Research agenda and work program to be completed over next year or so.

Membership

- Len Edwards (DFAIT) and David Oulton (Agriculture and Agri-Food Canada) to co-chair.
- Core members to include:
 - Agriculture and Agri-Food
 - Canadian Heritage
 - Canadian International Development Agency
 - Canadian Security Intelligence Service
 - Citizenship and Immigration
 - Environment
 - Finance
 - Fisheries and Oceans
 - Foreign Affairs and International Trade
 - Health
 - Human Resources Development
 - Indian Affairs and Northern Development
 - Industry
 - Justice
 - Natural Resources
 - National Defence
 - Privy Council Office
 - Revenue Canada
 - Solicitor General
 - Statistics Canada
 - Transport

- The above list is not meant to be exclusive. Other departments may have relevant research activities underway and, therefore, may wish to participate. In addition, others may be invited to participate.
- Members to be designated by their Deputy Ministers.

PRC SUB-COMMITTEE: CANADA 2005 GLOBAL CHALLENGES AND OPPORTUNITIES

Abrams, Martin	Atlantic Canada Opportunities Agency
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Brackstone, Gordon	Statistics Canada
Cailloux, Michel	Federal Office of Regional Development (Quebec)
Calder, Kenneth	National Defence
Chapman, Laura	Citizenship and Immigration Canada
Cleland, Michael	Natural Resources Canada
Edwards, Len	Co-chair Foreign Affairs and International Trade
von Finckenstein, Konrad	Justice Canada
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Fraser, Cheryl	Fisheries and Oceans
Gagnon, Jean-Louis	Canadian Security and Intelligence Service
Gariepy, Sheila	Citizenship and Immigration Canada
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Judd, Jim	Department of Finance
Juneau, André	Health Canada
Karman, Zeynep	Status of Women Canada
Lahey, Jim	Human Resources Development Canada

Lazar, Avrim	Environment Canada
Lefebvre, Denis	Revenue Canada
Luce, Sally	Public Service Commission of Canada
McCaskill, Anne	Privy Council Office
Milne, Janet	Natural Resources Canada
Nymark, Alan	Health Canada
Ostry, Adam	Privy Council Office
Oulton, David	Co-chair Agriculture and Agri-Food Canada
Potter, Ian	Indian and Northern Affairs Canada
Ranger, Louis	Transport Canada
Robinson, John	Canadian International Development Agency
Stobbe, Jim	Public Works Canada/Government Services Canada
Sulzenko, Andrei	Industry Canada
Thibault, Paul	Treasury Board of Canada
Vincent, Diane	Agriculture and Agri-Food Canada
Wernick, Michael	Canadian Heritage
Wouters, Wayne	Privy Council Office

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